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US seeks sanctions over EU beef ban

Deadline aimed at forcing deal on hormone-treated cattle

By Guy de Jonquières in London and Nancy Dunne in Washington

The US yesterday stepped up pressure on the European Union over trade by taking the first steps towards imposing sanctions on European exports in retaliation for the EU's ban on hormone-treated beef.

The move, which follows last month's US decision to start implementing sanctions against the EU in their conflict over bananas, involved publication of a preliminary list of mainly agricultural exports that could be subject to 100 per cent tariffs.

Exports on the list include beef, poultry, ham, sausages, Roquefort cheese, pâté de foie gras, truffles, tomatoes, canned fruits, flowers, mineral water, chewing gum and motorcycles.

The US says the annual value of European exports on the list exceeds $900m, although this is expected to be reduced to about $300m after further consultations with US industry.

In contrast to the EU's angry reaction to US measures over bananas, yesterday's announcement drew a low-key response from Brussels.

"This is a procedural step which the US is entitled to take," a spokesman for Sir Leon Brittan, acting trade commissioner, said.

"The key thing is that we need to keep on talking with the US to try to find a solution, because a further trade dispute is not in anyone's interest."

Senior US officials said they also wanted to settle the dispute and were ready to continue talks on proposals, including the labelling of US beef exports to the EU, that would lead to the 11-year-old ban being lifted.

They said that yesterday's announcement was a precautionary move, designed to protect US rights in the World Trade Organisation, in the event that no settlement was reached by mid-May.

The EU has until May 13 to comply with a WTO ruling that the ban violates trade rules, because it is supported by no scientific evidence that hormone-treated beef is unsafe.

The US says if no settlement can be reached by May 13, it will ask the WTO for authorisation to implement the sanctions.

The EU has admitted that it will be unable to meet the WTO deadline for compliance because it will not have completed scientific assessments designed to test the safety of hormone-treated beef.

It has proposed several interim options including making the ban provisional; lifting it and labelling beef imports; and keeping it while offering the US and other beef exporters compensation.

Peter Scher, the top US trade negotiator, said that Washington was prepared to consider compensation by the EU, but only as a short-term measure until the ban was lifted.

Talks between the US and EU on a solution have so far focused on possible labelling schemes.

However, the two sides are still far from agreement.

The EU has rejected as inadequate a US proposal that all its beef exports be labelled to show their national origin, while Washington says it cannot accept Brussels' demands that labels show that beef has been hormone-treated.

Meanwhile, the US said yesterday that it had dropped a threat to challenge in the WTO Japan's recent decision to impose 1,000 per cent tariffs on its rice imports.

Mr Scher said the US accepted that Japan did not plan to change its tariff levels but was seeking assurances that US rice exports to Japan would not fall below levels during the past four years.

Product details, www.FT.com

Ethnic Albanians flee the village of Rezala in the Drenica region of Kosovo yesterday as Serb forces advance. Report, Page 20 Picture: Reuters

PREMIER THROWS BRITISH SUPPORT BEHIND FORMER ITALIAN PRIME MINISTER

UK backs 'reformist' Prodi for Commission presidency

By Philip Stephens and Robert Peston in London

Tony Blair, Britain's prime minister, yesterday gave unequivocal backing to the candidacy of Romano Prodi, the former Italian prime minister, for the presidency of the European Commission.

In comments that reflected his government's increasing confidence that Mr Prodi will secure the post, Mr Blair said this week's Berlin summit must give the new Commission president a full term, which in effect would last 5½ years.

European Union leaders should also produce a specific mandate for reform covering both the management of the Commission and its policy priorities.

Mr Blair told a group of European journalists: "I have always made it clear that Romano Prodi has all the qualities to be an excellent president of the Commission." He was both "a highly able man" and a "reformer".

Mr Blair praised the skills of other mentioned contenders – among them Wim Kok, the Dutch prime minister – but indicated he thought these potential rivals to Mr Prodi were unlikely to stand. The choice was not a foregone conclusion, "but I've said what I think". Pressed on whether European leaders were in danger of rushing the decision, Mr Blair said: "I would not be suggesting that we take it unless we had someone of the highest possible calibre."

The powerful backing for Mr Prodi coincided with renewed insistence by Mr Blair that the resignation of the present Commission must act as a catalyst for fundamental reforms. As well as putting in new systems of financial controls, the Berlin summit should deliver a mandate to the incoming president on the scope of the Commission's remit. That would include strengthening the principle of subsidiarity under which decisions are left to national governments.

Mr Blair was cooler on the idea of any shift in the relative powers of the EU's institutions. He said the European Parliament, which has so far emerged as the victor of the upheavals in Brussels, remained relatively remote from its electorate. Defending the powers of the Council of Ministers, he added that national governments and parliaments were closer to the people.

Gerhard Schröder, the German chancellor, would not be drawn on Mr Prodi's candidature. He said the Berlin summit "aimed to set out the procedures for naming a new Commission president and a likely timetable for it". Officials played down widespread reports that Bonn had already put its weight behind Mr Prodi. They said Mr Schröder felt that Germany, as the country holding the EU presidency, should be able to play the honest broker and not push any one candidate.

Mr Prodi said last night he did not expect a decision to be taken at the summit. Rather, it would be postponed until after Easter.

The UK government, meanwhile, gave its backing to a modest change in the way contributions to the EU budget are calculated, which would give greater weight to the relative gross national products of member countries.

This would reduce the UK's contribution. However, Mr B... continued to insist that the basic mechanism for calculating Britain contentious budget rebate – or abatement – should not change. He said the rebate merely protected Britain's position and even after enlargement of the EU it would remain the second largest net contributor.

Additional reporting by James Blitz in Rome and Haig Simonian in Bonn

Bonn cautious on summit, Page 2
Blair seeks new beginning, Page 8

US cable groups agree $60bn deal

By Christopher Parkes in Los Angeles

Comcast, a leading cable television operator part-owned by Microsoft, is to buy rival MediaOne in a $60bn (€55bn) stock and debt deal that may help speed the delivery of a wide range of electronic services to US homes.

Following completion of the purchase of Tele-Communications Inc by AT&T, the long-distance telephone group, it marks a further stage in the rapid consolidation of the national network of two-way pipelines providing television, telephone and internet signals.

The acquisition, which includes assumption of $7bn of MediaOne debt, is the cable industry's biggest to date, and will bring Comcast's subscriber total to 11m, drawing services from a network that passes almost 20 per cent of US homes. It will also combine entertainment and electronic commerce assets, which include Comcast's QVC television and online shopping networks, sports teams and the E! entertainment network.

MediaOne, spun off in 1997 from the US West regional telephone company, also owns 25 per cent of Time Warner Entertainment, a division with assets including large cable systems, the HBO TV services and the Warner Bros film and television production studio.

Group executives said they expected to resume negotiations to form a joint venture with AT&T, which is bidding to use cable to bypass regional telecoms' companies expensive connections to the residential market. But they also suggested they may be able to provide telephone services from their resources.

Yesterday's announcement prompted a sharp rise in cable company stocks as investors read the move as a cue for more consolidation and higher valuations.

The companies last year had combined revenues of $8bn and operating cash flow of $2.4bn.

Christopher Price in London reports: The merger prompted speculation on the future of two of MediaOne's UK investments: Telewest Communications, a cable operator, and One-2One, a mobile phone company. Shares in Telewest, in which MediaOne holds a 29.9 per cent stake, rose 15¾p to 253¾p on the news.

New elite, Page 22
Lex, Page 20

WORLD NEWS

Finnish parties start talks to form new government

The leaders of Finland's largest political parties embarked on a series of negotiations aimed at forming a new government following an inconclusive general election. **Europe, Page 3**

Taiwan exports and output boost
Taiwan announced unexpectedly high growth in export orders and industrial output, raising hopes that it has weathered the worst of Asia's economic storm.
Asia-Pacific, Page 6

US food aid for N Korea
The US is to provide 100,000 tons in new food aid for North Korea. The announcement came five days after Washington settled a nuclear dispute with Pyongyang.

Hong Kong in new Cyberport row
Hong Kong's government has attracted further criticism over its Cyberport project.
World trade, Page 4

Accord on product guarantees
The European Union has agreed a draft law that will entitle consumers in the 15 member states to a two-year guarantee on purchases. **Europe, Page 2**

Portugal warning over Macao
Portugal and China appear to have run into snags in the countdown to the handover of Macao. At the end of a five-day visit to the enclave, Portuguese president Jorge Sampaio said he might not attend the handover ceremony if disagreements were not satisfactorily resolved.
Asia-Pacific, Page 6

Barak tries to unite Israel
Ehud Barak, leader of Israel's opposition Labour party, beefed up his campaign to defeat Benjamin Netanyahu in the May elections by launching the "One Israel" movement. It hopes to unite supporters from the left and centre, Jews and Arabs.
International, Page 5

UK bans Kurd TV station
Turkey scored an important victory against the Kurdish Workers party when Britain suspended the broadcasting licence of Med-TV, a Kurdish television station accused by Ankara of inciting recent bomb attacks.
Europe, Page 3

Two-horse race for top trade job
Mike Moore, former New Zealand premier, and Supachai Panitchpakdi, Thailand deputy prime minister, are battling it out to become next director-general of the World Trade Organisation after Morocco withdrew.
World trade, Page 4

China rejects espionage claim
China intensified its criticisms over US allegations of espionage, dismissing charges that it stole nuclear secrets from American laboratories as ignorant, arrogant and absurd.
Asia-Pacific, Page 6

BUSINESS NEWS

LTCM and Russia turmoil costs UK banks $12.2bn

The near collapse of Long Term Capital Management, the US hedge fund, and the Russian government's debt default last year caused UK-based banks to suffer trading losses of £7.5bn, ($12.2bn). Page 20; Taylor payoff, Page 21

The Hong Kong government attracted renewed criticism over the awarding of the Cyberport information technology project to the son of a property developer. **International trade; E-commerce battle, Page 4**

Mori, the Japanese property developer, has again delayed construction of the world's tallest skyscraper, the Shanghai World Financial Centre. **Asia-Pacific companies, Page 24**

Canada's four Atlantic telephone companies are to merge, forming the country's third-largest carrier. **US and Canadian companies, Page 22**

Larry Summers, deputy US Treasury secretary, pledged to tackle tax shelters that are costing the government billions of dollars. **US news, Page 8**

Commerzbank of Germany plans to raise more than €2.4bn ($2.6bn) in preparation for possible acquisitions. **Page 21**

TIAA-Cref, the world's largest pension provider, is urging shareholders of Lubrizol to join it in voting against the US speciality chemical company's anti-takeover provisions.
US companies, Page 22

Arthur Andersen reported a 19 per cent increase in 1998 revenues to £465m ($758m) – a strong performance and further evidence of the firm's ability to put aside its long-running divorce proceedings with Andersen Consulting. **UK companies, Page 30**

Airbus, the four-nation European aircraft manufacturer, extended its conquest of the Spanish market by signing a preliminary deal with Spanair airline for up to 45 aircraft worth $2.2bn.
International trade, Page 4

Gucci, the embattled Italian fashion company, is to enter discussions with LVMH over an $81-a-share cash offer from the French luxury goods group which values Gucci at $8bn. **Page 21; Lex, Page 20**

Banca Commerciale Italiana and Banca di Roma appeared set to agree to separate mergers with UniCredito Italiano and San Paolo-IMI. **European companies, Page 28**

TNT Post Group shares slipped 5.6 per cent as the Dutch mail and express delivery group forecast that net profits this year would increase by only 10-15 per cent. **European companies, Page 28**

WORLD MARKETS

STOCK MARKET INDICES			**GOLD**		
New York: Lunchtime			**New York: Comex**		
Dow Jones Ind Av	9917.70	(+14.15)		$284.5	(284.1)
NASDAQ Composite	2410.68	(-10.59)	**London:**		
Europe and Far East				$284.45	(283.55
CAC40	4197.06	(-22.59)	**DOLLAR**		
DAX	5027.06	(-72.42)	**New York: Lunchtime**		
FTSE 100	6152.8	(-10.4)	£	1.6285	
FTSE Eurotop 300	1251.72	(-6.38)	€	0.9168	
Nikkei	closed		SFr	1.4637	
US Lunchtime RATES			Y	118.125	
Federal Funds	4.8125%		**London:**		
3-mth Treas Bills: Yld	4.51%		£	1.6278	(1.6282)
Long Bond	95$\frac{25}{32}$		€	0.9171	(0.9153)
Yield	5.54%		SFr	1.4647	(1.4622)
OTHER RATES			Y	117.93	(117.125)
UK: 3-mo Interbank	5¼%	(5¼)	**Tokyo Close**		(c)
UK: 10 yr Gilt	110.74	(111.10)	**EURO (London)**		
Euro Euribor	3.020%	(3.027)	$	1.0905	(1.0926)
Germany: 10 yr Bund	98.25	(98.53)	£	0.6699	(0.6707)
Japan: 10 yr JGB	closed	(101.056)	Y	128.597	(127.965)
NORTH SEA OIL (Argus)			SFr	1.5972	(1.5975)
Brent Dated	$13.35½	(13.12)			

Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr285	Oman	OR1.75
Belgium	BFr90(€2.23)	Italy	L3900(€2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320(€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	Dkr16.00	Latvia	Ls1.65	South Africa	R16
Estonia	EKr34.00	Lithuania	Lit21.00	Spain	Pta325(€1.95)
Finland	Fmk13.00(€2.19)	Lebanon	LBP3.500	Sweden	SKr20.00
France	FFr14.00(€2.13)	Luxembourg	LFr90(€2.23)	Switzerland	SFr3.50
Gibraltar	£0.85	Morocco	Dh18.00	Syria	S£80.00
Greece	Dr500	Netherlands	Fl 4.80(€2.18)	Tunisia	Din2.000
Hungary	Ft380	Norway	NKr19.00	UAE	Dh13.00

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AGENDA 2000 SCHRODER PLAYS DOWN HOPES FOR ACCORD ON REFORMS AND CHOOSING SANTER'S SUCCESSOR ■ UK REBATE LIKELY TO CAUSE DISCORD AMONG MEMBER STATES

Bonn cautious on EU summit prospects

By Haig Simonian in Bonn and Michael Smith in Brussels

The German government yesterday sounded a cautious note ahead of this week's crucial Berlin summit on the reform of the European Union's finances and farm and regional policies. Bonn's subdued tone contrasted with the more optimistic statements by ministers last week on the chances of agreement on the EU's ambitious Agenda 2000 reform package.

Officials yesterday warned of big barriers to reaching an accord on cutting farm expenditure, redistributing national EU budget contributions and capping regional aid - three pillars of Agenda 2000 due to be discussed in Berlin. "There is no guarantee of success," said one senior official. Gerhard Schröder, German chancellor, who has been touring EU capitals to gauge the chances of success, also played down the prospects of naming a new Commission president in Berlin to replace Jacques Santer.

His downbeat remarks followed a strained meeting with Jacques Chirac, the French president, last Friday, at which a gulf was still evident between Bonn and Paris on many issues.

Agriculture remains the most contentious topic between the two capitals, in spite of earlier apparent progress by EU farm ministers. with France most concerned about milk prices and quotas.

The officials also refuted press reports that the chancellor had reached an informal agreement with Tony Blair, the British prime minister, to play down demands to cut the UK's special EU budget rebate at the summit. The UK rebate remained on the agenda, officials said. "Almost all" member states felt the rebate no longer corresponded to the "new realities" of the EU, said one adviser to the chancellor.

The chances of securing a cut in Bonn's substantial EU budget net contributions also appeared to have receded after weekend comments by Günter Verheugen, Europe minister, that the government had only limited expectations.

The pessimistic tone may be partly a reaction to the more upbeat mood of last week, when EU governments sought to play up the chances of unity after the surprise resignation of the Commission. Stark differences between EU capitals appear to have come into sharp relief as the Berlin summit approaches.

Appearing before the European parliament in Brussels for the first time since his resignation, Mr Santer yesterday defended his own record and that of his fellow commissioners, saying they had "tried harder than any before us to improve the Commission's workings".

Although less defiant than in speeches last week, he expressed disappointment about the conclusions of the committee of experts whose report led to the Commission's resignation. Joschka Fischer, German foreign minister, told parliament he supported Mr Santer.

Brussels halts report on economy

The European Commission has halted work on a critique of the European Union economy, including government policies, following the resignation of its 20-strong executive last week, writes Michael Smith.

Commissioners fear it would be considered too politically sensitive in the light of their decision not to take any big fresh initiatives before a replacement college of commissioners is appointed.

A meeting of their senior aides scheduled for today has been cancelled.

Although some governments may be relieved they will escape direct criticism, which was expected in the report, most are likely to be concerned about loss of guidance in the development of economic and monetary union.

Another potential casualty of last week's Commission resignation is an early EU decision on loans to enable Ukraine to shut down a nuclear reactor at Chernobyl, site of the world's worst nuclear accident.

Accord on product guarantees

By Michael Smith

The European Union has agreed to a draft law that will entitle consumers across the 15 member states to a two-year guarantee on goods purchased, quadrupling the mandatory warranty period in some countries.

Under the first law the EU has approved in principle since last week's resignation of the European Commission, buyers of defective goods will be able to demand repair or replacement of a faulty product. If this proves impossible, they will be entitled to price reductions or their money back. Second-hand goods will be guaranteed for a year.

Buyers of defective goods will be able to demand repair or replacement of a faulty product AP

Although welcomed by consumer organisations, business has attacked the directive, due to come into effect on January 1 2002, for imposing costs that could lead to factory closures and higher prices.

The legislation was quietly agreed last week by the EU's 15 member states and leaders of the European parliament under "co-decision" procedures, by which countries and parliament share decision-making authority.

Final approval by the parliament and council, comprising member states, is considered a formality.

The approval demonstrates that some EU business will go ahead as usual, in spite of the leadership void created by the Commission's resignation in the wake of a report into fraud and mismanagement.

The consumer guarantees proposal, put forward by the Commission three years ago, is aimed at harmonising the widely differing laws on statutory guarantees in the EU and is seen by supporters as a crucial step in completing the European single market.

The new law will quadruple the six-month guarantee prevalent in Austria, Germany, Greece, Portugal and Spain. Other states with longer limits - in France and the Netherlands there are no limits and in the UK and Ireland guarantees last six years - can maintain them.

But even states with long existing guarantees will have to change their laws. One reason is that the legislation shifts the burden of proof requirements. If a defect appears during the first six months following a purchase, the seller must prove the product was sold without defect. In many counties, the onus is on the buyer to prove a fault.

The directive applies to "moveable goods" that are faulty when sold. Buildings are excluded.

The main compromise between member states and the parliament concerned the date when the directive comes into force. Parliament had wanted an earlier start date, the countries a later one. The January 1 2002 compromise coincides with the introduction of euro notes and coins under monetary union. Supporters of the law say it will provide consumers with a minimum standard of protection in cross-border shopping.

'British cheque' arouses ire

The UK is fighting a staunch rearguard action against redefining the terms of its EU budget rebate, writes Quentin Peel

If there were one deal that could be done at the European Union summit in Berlin to delight 14 of the 15 member states, it would be to re-negotiate the UK budget rebate.

The "British cheque", as it is disparagingly known to everybody but the British, has been detested in Brussels ever since it was fought for and won by Margaret Thatcher in 1984.

Yet the irony is that the infection started by the former British prime minister's determination to reduce her country's net contribution to the EU budget has now spread to four other member states - Austria, Germany, the Netherlands and Sweden.

All claim they are paying too much to Brussels in relation to the EU spending their countries receive in return, just as Mrs Thatcher did in the early 1980s.

Whereas in 1984, when agricultural spending consumed some 70 per cent of the EU budget, the UK budgetary imbalance was the largest but that situation has changed.

With farm spending now under 50 per cent of the total EU budget, Germany is by far the largest net contributor, paying in at least €11bn ($12bn) more than it receives.

On the crudest method of calculation, the Netherlands come next with a net contribution of around €2.3bn, followed by Sweden on €1.1bn, and both France and Austria at under €1bn.

The UK, which is a net contributor of between €1.8bn and €3bn before it gets its rebate, depending how it is calculated, still pays a net contribution of around €700m after its "cheque".

The British government argues, as a result, that there is no reason to change the deal, especially as it ranks no higher than ninth in the EU according to per capita gross national product.

Net contributions before and after the UK rebate

1997	Before (Ecu m)	After (Ecu m)
Belgium	1809.7	1712.0
Denmark	156.5	93.8
Germany	-10962.5	-11456.1
Greece	4360.5	4314.5
Spain	5756.9	5537.2
France	-1197.6	-1757.2
Ireland	2822.0	2800.8
Italy	-131.2	-564.0
Luxembourg	721.7	715.0
Netherlands	-1079.1	-1224.0
Austria	-791.5	-873.9
Portugal	2714.8	2675.4
Finland	46.7	1.4
Sweden	-1109.6	-1195.0
UK	-3117.3	-658.5

Source: European Commission

The rebate itself has varied between €1.5bn and more than €3bn over the years. It results in a reduction of the UK's contribution to the EU budget by an amount equal to 66 per cent of its budgetary imbalance and is calculated according to a ferociously complicated formula.

All of this is set in the constitutional equivalent of concrete, by being incorporated in the so-called Own Resource Decision of the EU, which requires unanimous agreement - and so that of the UK - to change it.

EU purists have always argued that the very idea of a "net contribution" is wrong: it would be impossible to ensure that all member states received back the same proportion of spending as they made in contributions.

In any case that is unfair, they say, because the benefits of EU membership cannot be calculated according to receipts from the €86bn budget. The existence of the single EU market, for example, provides greater benefits to some countries (such as Germany) than others.

Moreover, all agree there should be some transfers from the wealthier member states to the poorer, such as Greece, Portugal, Spain and Ireland.

However, it is now widely accepted that the four big net contributors are paying too much, and the European Commission tacitly admitted as much last October, when it analysed the entire question in a report to the Council of Ministers.

It concluded the UK was no longer in a unique position and suggested ways of making the budget contributions fairer for all.

One would be to move all member states on to contributions based entirely on their gross national product, or GNP per capita. The other two sources of EU finance are based on value added tax and "traditional" own resources, including customs tariffs and agricultural duties.

If the VAT-based contributions were scrapped, Belgium, Denmark, Italy (in particular) and Finland would end up paying more, justified by their wealth. That is one firm proposal for the summit.

The other idea, backed by all but the UK, is to exclude future spending on new EU members in eastern Europe from the sum to which the British rebate applies.

At present, any spending in eastern Europe is considered third-country spending, and the UK pays its full share.

If countries like Poland, Hungary and the Czech Republic become full members, Britain would end up paying less than it is today thanks to the rebate.

Changing that would not mean rewriting the rebate formula, but simply redefining the spending to which it applies. France thinks it can be done. The UK government is fighting a staunch rearguard action. "It would cost us around £1bn ($1.6bn) a year," according to a UK official. "We cannot accept that is justified."

Switch to euros picks up

By Christopher Brown-Humes in London

Retailers and businessmen are beginning to switch to the euro, with more than one in a hundred credit and debit card transactions in the euro-zone being processed in the new currency.

"It's not a dream in someone's eye. It's a reality," said Peter Warner, head of the euro programme for Europay International, a MasterCard affiliate and Europe's leading payment system.

Europay has been tracking cross-border card spending patterns in the new currency since the start of the year. Its findings are based on Eurocard and MasterCard usage. Cards are the only way for consumers to pay in euros until the introduction of cash and notes in 2002.

France and Belgium are the countries where it is easiest to pay in euros, followed by Germany. The choice is not yet offered in the Netherlands but the Dutch are the keenest on paying in euros when travelling abroad, followed by the Germans.

Transport and the internet are attracting the most euro usage. For example, the French road toll system forces all non-French users to pay in euros, although domestic users can still pay in francs. Euro payments are also picking up among retailers, airlines, hotels and restaurants, although many are not promoting the facility to customers. From January to February, the number of euro transactions more than quadrupled. "We think 5 per cent of euro-land card transactions will be in euros by the end of the year," said Mr Warner. A total of 64 countries worldwide have settled Eurocard-MasterCard transactions. The largest number of euro payments made by non-European cardholders were generated by US citizens.

Bonn to push for farming cuts

By Michael Smith

Farmers were infuriated by a tentative deal on farm aid reform agreed this month by European Union agriculture ministers. But the worst may yet be to come.

Germany, holder of the EU's rotating presidency, is determined to force cuts in the farm ministers' package, and says €7bn ($7.6bn) of reductions are needed for the period 2000 to 2006 to ensure a budget freeze.

It has suggested that all direct payments to farmers - mainly made as compensation for price cuts - could be reduced by 1 per cent a year after they reach their peak at various stages in the next few years.

Another option it wants EU heads of government to consider at the summit that begins in Berlin tomorrow is to ask the European Commission to ensure "a balanced way that an annual ceiling of €40.5bn be met by budget management".

Farmers regard gradual aid reductions as the beginning of the end for the Common Agriculture Policy. But some member states, including the UK and Sweden, see them as an essential element of radical reform.

The Commission, in a document submitted to EU foreign ministers at the weekend, suggested cuts in direct payments introduced since the last big agricultural reform in 1992; payments made as compensation for price cuts agreed earlier this month would be exempted.

The Commission suggested the post-1992 payments be reduced by 2 per cent in the case of arable crops and 1 per cent for beef. The reductions would apply only to annual payments to each farmer above €5,000.

Savings would amount to about €6bn over the seven years, although half of this would be diverted to rural development projects. France, although a supporter of gradual reductions in direct payments, has suggested other ways of saving money. It wants to delay milk reform and to reduce 20 per cent price cuts for cereals agreed by farm ministers.

Pondering what really makes Primakov tick

By John Thornhill in Moscow

This week Washington's best and brightest will have a chance to crack the riddle puzzling Moscow for months: what does Yevgeny Primakov, Russia's prime minister and former spymaster, really stand for?

"Is he left or right? A secret liberal or a protégé of the Communists? A powerful independent figure or simply an experienced apparatchik?" asks a new biography* of Mr Primakov.

It is a measure of Mr Primakov's ambiguity that the author cannot fully answer his own rhetorical questions despite canvassing the views of dozens of the prime minister's friends and colleagues.

Nevertheless, Leonid Mlechin's book unearths some interesting nuggets about Mr Primakov, who is due to meet President Bill Clinton and the International Monetary Fund this week. If nothing else, the biography - which verges on hagiography - gives a good idea of how Mr Primakov likes to present himself.

Mr Primakov's family origins are obscure and almost nothing is known about his father, who went by the name of Kirshinblat. But Mr Mlechin believes it probable Mr Primakov's father was a victim of Stalin's repressions, forcing his wife to move from Kiev to Tbilisi, the Georgian capital, shortly after Yevgeny's birth in 1929.

In spite of the family tragedy, Mr Primakov had a happy and typically Soviet childhood. He grew up determined to make a mark in the Communist system. His friends say he retains many aspects of his Georgian upbringing: loyalty, generosity, and an easy ability to make friends that belies his frosty public image.

Mr Primakov's quick wit won him a place at Moscow's prestigious Institute of Oriental Studies, where he mastered Arabic, preparing himself for a career as a foreign journalist - and a lifelong association with the KGB. His friends recall he was a punctilious correspondent, making him all the more sensitive to unfair press criticism today.

Several of Mr Primakov's colleagues, who later worked with him in Moscow's foreign policy institutes, observed he was an Orientalist by temperament as well as training. One noted his almost "Japanese" characteristics: an instinctive search for harmony and agreement, as well as a dedication to hard work and time-keeping. Mr Primakov shocked co-workers by scheduling meetings at 10 a.m. - an hour earlier than was the custom.

As an adviser to Mikhail Gorbachev, the president of the Soviet Union, and a candidate member of the Communist Party Politburo in the late 1980s, Mr Primakov was one of the driving forces behind perestroika. "Then Yevgeny Maximovich was viewed as a suspicious liberal, now he is taken for an incorrigible conservative." Mr Mlechin notes.

But under President Boris Yeltsin's regime, first as head of Russia's intelligence service and then as foreign minister, Mr Primakov pushed an assertively nationalist line and opposed Nato expansion in eastern Europe. He argued Russia could not pursue a pro-western foreign policy in defiance of public opinion - as his liberal predecessor, Andrei Kozyrev, had tried to do.

Primakov: 'is he left or right?'

Mr Primakov is portrayed as principled, pragmatic, and patriotic - according to his own interpretation of these terms. His only unwavering beliefs appear to be that "democratic Russia" won, rather than lost, the cold war: that Moscow must oppose creation of a uni-polar world dominated by the US: and that Russia must support its domestic industry, never allowing itself to become a raw material appendage of the west.

Could the man who once headed the external espionage arm of the former KGB become Russia's next president? Mr Mlechin suggests the 69-year-old prime minister is genuinely reluctant to take on such an awesome challenge. But then, Mr Primakov made exactly the same argument before becoming prime minister last year.

* Yevgeny Primakov: Istoriya Odnoi Karery. Leonid Mlechin. Centrpoligraph

Primakov's US mission, Page 19

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Putting the stress on real rates

ECB watch

By Wolfgang Münchau in Frankfurt

One of the few lasting achievements of Oskar Lafontaine as Germany's finance minister was his repeated emphasis on "real" interest rates.

Many European central bankers had previously argued against an interest rate cut on the grounds that the present level of short-term interest rates - 3.0 per cent - was very low. Mr Lafontaine said central bankers should instead focus on "real" rates - actual rates adjusted for expectations of future inflation.

The European Central Bank last week took up Mr Lafontaine's suggestion in its March monthly bulletin*. The analysis shows that the central bankers are both right and wrong. Short-term real interest rates are low, both in comparison with historical European interest rates and historical and current US rates. But they are nowhere near their historic lows. As for long-term real rates, which are probably more important, the case is even less clear-cut.

The ECB calculates that the present level of short-term interest rates is 2.3 per cent. This rate is derived from the average three-month Euribor rate (a money market rate) of 3.1 per cent in February minus the latest inflation rate - 0.8 per cent in February. The lower the rate of inflation, the higher the real rate of interest.

Economic indicators for euro-11 countries

	Jan 1999	Dec 1998	Nov 1998	Oct 98	Sep 98	Aug 98	97	96
Inflation (annual % change)	0.8	0.8	0.8	0.9	1.0	1.1	1.6†	2.2†
Unemployment (%)	10.6	10.7	10.8	10.8	10.9	11.0	11.6	11.6
Trade (Ecu bn)								
Exports	n.a.	63.9	65.8	68.3	65.6	56.2	760.8	667.7
Imports	n.a.	57.0	59.3	61.4	61.3	49.9	671.4	594.2
Trade balance	n.a.	6.9	6.5	6.9	4.3	6.2	89.4	73.5

Current account (Ecu bn)	Q3 1998	Q2 98	Q1 98	Q4 97	Q3 97
Current account balance	21.8	25.0	12.4	28.6	26.0
As % of GDP	1.5	1.7	0.9	2.0	1.9

Industrial production (%) (3 mo over previous 3 mo)	Oct-Dec/ Jul-Sep	Sep-Nov/ Jun-Aug	Aug-Oct/ May-Jul	Jul-Sep/ Apr-Jun	1997	1996
	-0.3	0.0	0.1	0.2	4.1††	0.0††

GDP growth (%)	Q4 1998	Q3 1998	Q2 98	Q1 98	97	96
Over same quarter last year	2.4	2.9	3.0	3.8	2.5	1.6

Money supply	Jan 1999	Dec 1998	Nov 1998	Oct 98	Sep 98	Aug 98
M3 Annual growth rate (%)	5.7	4.5	4.6	4.8	4.4	4.3

* provisional ** estimated † estimated due to Ireland, for which quarterly index numbers for 1995 and 1996 were used to estimate the monthly ones
Source: Eurostat
†† annual % change

German real interest rates were 3.2 per cent during the 1990s, and US rates averaged 2.3 per cent, having recently risen to 3.2 per cent. This comparison suggests that real short-term rates in the euro-zone are a little lower than German rates, though not lower than US rates during the 1990s.

More important are the long-term rates, to which many continental European companies and borrowers are exposed. The 10-year real interest rate in the euro-zone is currently 3.2 per cent, approximately the same as the present US real rate (3.3 per cent). However, the US economy has recently been growing at annual rates of 7 per cent, while the euro-zone economy is sluggish. One would therefore expect a much bigger difference.

The lower the rate of inflation, the higher the real rate of interest

The ECB also pointed out some analytical problems associated with real interest measurement. Some economists argue it would be better to use producer price inflation (PPI). It was argued that the PPI "may be more relevant for investment decisions, since it captures the price of firms' output," the ECB wrote in its bulletin.

Based on producer price inflation, the calculation of real interest rates would throw up a completely different result. In December, producer prices fell by an annual rate of 2.5 per cent. This translates into short-term real rates of 5.6 per cent as opposed to 2.3 per cent. But the ECB says the harmonised index of consumer prices is the better indicator, because producer prices measure only price inputs in the manufacturing sector, and do not take into account the services or consumer sectors.

The data still show that European real interest rates are relatively low, though not as low as some of the more exaggerated claims. There may be still some, though not much, room for further interest rate cuts. And even then, the euro-zone would not come close to the lowest level of real interest rates.

* European Central Bank, Monthly Bulletin, March 1999: http://www.ecb.int

Nato acts to widen scope of air strikes

By Guy Dinmore in Belgrade, David Buchan in London and Gerard Baker in Washington

Nato yesterday acted to widen the scope of initial air strikes against Yugoslavia, as Serbian security forces pressed ahead with their offensive against ethnic Albanian rebels of the Kosovo Liberation Army (KLA).

But even as Nato missiles and jets were being prepared for action against Serbian targets, the Clinton administration was fighting growing scepticism at home from many Republicans and some Democrats about the case for striking at Mr Milosevic's forces.

Nervous over the spectacle of US disunity, the White House called on the Republican congressional leadership to drop plans for a debate and a vote today on legislation to bar funding for military operations in Yugoslavia without congressional approval.

In Brussels, Nato allies decided to give Javier Solana, the alliance secretary general, authority for Nato to target Yugoslav army bases and concentrations of armour in and around Kosovo – in addition to Yugoslavia's air defences – in any first strike.

Nato had originally planned strikes aimed at air defences spread over two nights, followed by a pause for Mr Milosevic to reflect. But, according to Nato officials, the alliance now thinks it might have to launch a wider first strike, given the speed of the Serbian offensive..

The bombing option appeared to have fairly solid support among the 19 Nato allies, although George Papandreou, foreign minister of Greece, traditionally close to Serbia, said Greek forces would not participate.

In Kosovo yesterday, villages were shelled and farms and haystacks torched by special police units in the northern area adjoining Serbia proper, leading some analysts to think Mr Milosevic might be planning to clear the north, with a view to letting the south go in a partition deal.

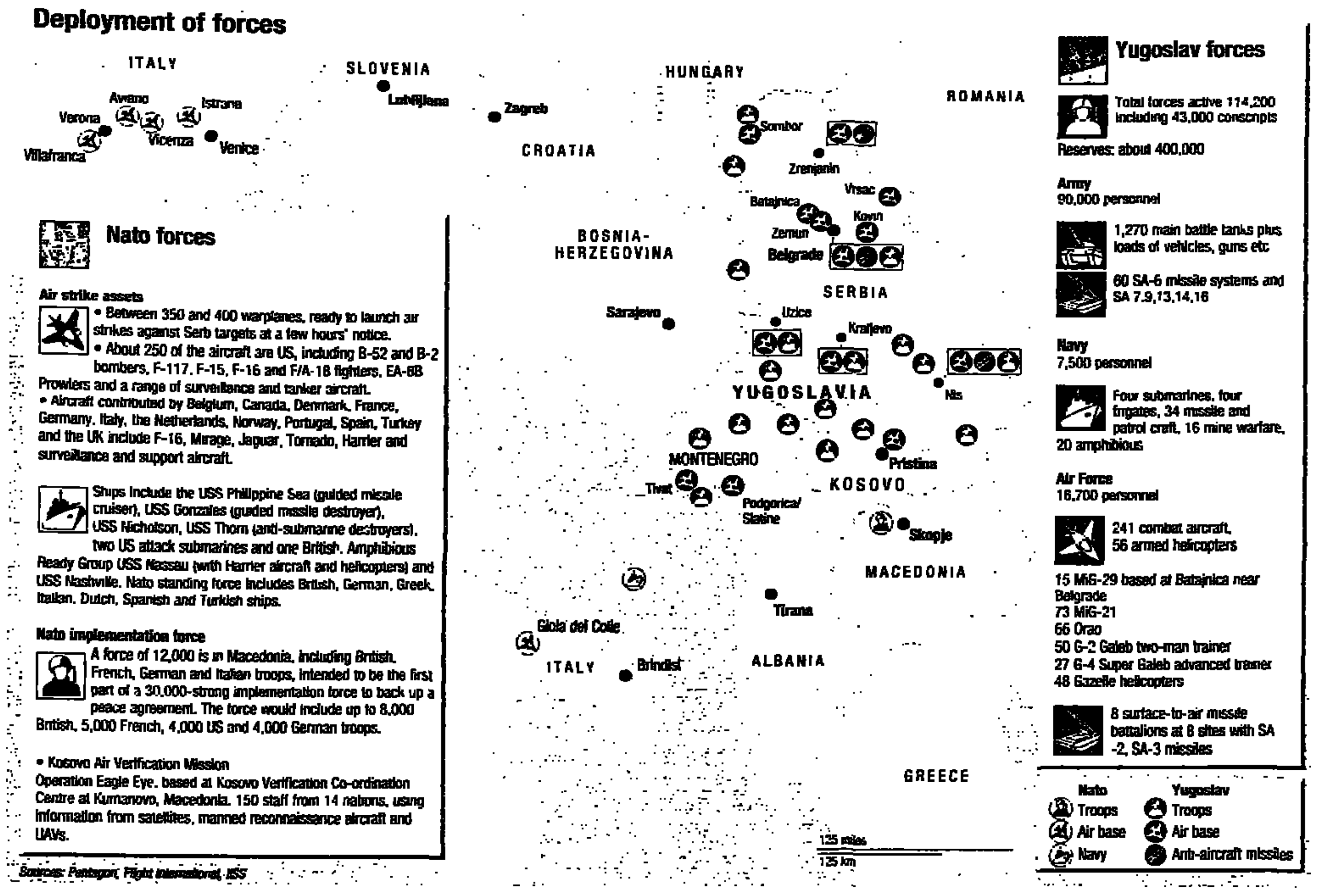
"Horrendously bad" was how Paula Ghedini of the UN refugee agency (UNHCR) described the crisis. "We feel overwhelmed," she said, estimating that over 40,000 people, mostly ethnic Albanians, had been displaced by a government offensive that began on Saturday as international monitors withdrew.

Security forces yesterday concentrated attacks on villages along the main highway leading north from the regional capital Pristina. Reporters saw civilians fleeing as special police units moved from house to house. Shelling could be heard from the direction of the KLA-held village of Lapastica.

Yugoslav army tanks had taken up new positions on a hill above the village of Luzane.

Reporters said about 10 villages were on fire near the northern town of Glogovac, which was overflowing with thousands of refugees. The KLA had blown up a bridge on a key road leading from Glogovac to Srbica which was overrun by security forces on Saturday.

Morale among the Serbian troops appeared high. Largely confined to barracks since October, when Mr Milosevic called off his summer offensive under Nato pressure, the security forces appear to have been given a free hand by Belgrade to go on the offensive.



Sources: Pentagon; Flight International; IISS

NEWS DIGEST

GDP CONTRACTS BY 4.1%

Czech Republic's recession deepens in final quarter

The economic recession in the Czech Republic deepened in the final quarter last year with gross domestic product contracting by 4.1 per cent following a fall of 2.9 per cent in the third quarter. For the full 12 months the economy shrank by 2.7 per cent, according to figures released yesterday by the Czech Statistical Bureau, compared with marginal growth of 1 per cent in 1997.

The fall in output in the fourth quarter was the biggest quarterly decline since the break-up of Czechoslovakia at the beginning of 1993. The previous Czech government was forced to impose tough austerity measures in early 1997 in response to a currency crisis triggered by a rapid rise in the current account deficit. **Kevin Done, London**

FRENCH CONSTITUTIONAL COURT CHIEF

Pressure mounts on Dumas

The pressure is mounting for the resignation of Roland Dumas, head of the French constitutional court and former foreign minister, after last week's re-opening of an investigation into allegations that he benefited from misappropriated corporate assets.

Two former prime ministers – Edouard Balladur and Michel Rocard – suggested at the weekend that Mr Dumas should step down.

The investigation was re-opened after Christine Deviers-Joncour, Mr Dumas' former mistress, claimed he had assisted her during her 1992 purchase of a FFr17.5m (€2.67m, $2.94m) apartment. **Samer Iskandar, Paris**

GREEK POLITICS

Simitis re-elected by party

Costas Simitis, Greece's prime minister, was confirmed as party leader at a governing Panhellenic Socialist Movement (Pasok) congress but the rival populist faction increased its strength on the 180-member central committee. Mr Simitis captured 65.7 per cent of the vote in Sunday's uncontested leadership ballot but his modernising faction won only 61 per cent of seats on the central committee.

Analysts said dissatisfaction with the government's tight economic policies and a bungled attempt to protect Abdullah Ocalan, the Kurdish guerrilla leader, boosted support for the populists. **Kerin Hope, Athens**

Turkish victory as UK bans Kurd TV station

By Leyla Boulton in Ankara

Turkey yesterday scored an important victory against the Kurdish Workers party (PKK) when Britain suspended the broadcasting licence of Med-TV, a Kurdish television station accused by Ankara of inciting a string of recent bomb attacks.

The decision by the UK's Independent Television Commission (ITC) was the second shot in the arm for the Turkish government yesterday.

Rebel deputies in the Turkish parliament failed in their attempt to topple Bülent Ecevit, the caretaker prime minister, in a vote of censure.

The vote – 241 against the motion and 236 in favour – furthermore bodes ill for the rebels' ultimate aim of delaying elections set for April 18.

Both the no-confidence motion and the attempt to postpone elections until 2000 have been put forward by an unwieldy alliance of Islamists, who want to lift an election ban on former leaders, and a cross-party group of deputies angered at being left off electoral lists.

"I don't see how elections can possibly be delayed now," Mr Ecevit said after the vote. The Turkish stock market closed 0.17 per cent higher on the day, buoyed by prospects of elections going ahead as planned and producing a victory for secularists led by Mr Ecevit's Democratic Left party.


Bülent Ecevit: electoral prospects boosted by capture of Abdullah Ocalan, PKK leader

Mr Ecevit has seen his electoral prospects boosted by the capture of Abdullah Ocalan, the PKK leader.

Mr Ecevit is also likely to claim credit for successfully pressing on with perennial Turkish demands for the closure of Med-TV, which operates out of Britain and produces programmes in Belgium.

The station, to be closed for 21 days in a first punitive step by the ITC, is widely watched by Kurds who have not been allowed their own Kurdish-language television broadcasting within Turkey.

Meanwhile, the decision by Uluç Gürkan, acting speaker of parliament, that a motion to delay elections must first be debated in committee means it is unlikely to be discussed until parliament next meets on Friday, if at all.

By then, the Constitutional Court is expected to have ruled on a separate petition, submitted by three secularist parties, that the present session of parliament was convened on false pretences and must therefore be disbanded.

The rebel parliamentarians secured the reopening of parliament – which had closed down to allow members to campaign for the elections – on the grounds that they wanted to discuss issues arising from the capture of Mr Ocalan. The issue has not been touched by deputies since they reconvened more than a week ago.

Following a warning from the armed forces last week that postponing the polls would cause chaos, the Turkish judiciary put further pressure on parliamentarians yesterday when a public prosecutor called for a ban on the Virtue party on constitutional grounds.

Finnish parties start coalition negotiations

By Tim Burt in Helsinki

The leaders of Finland's largest political parties yesterday embarked on a series of negotiations aimed at forming a new government following an inconclusive general election result at the weekend.

After almost conceding defeat on Sunday night, Paavo Lipponen, the prime minister and Social Democrat leader, appeared to have snatched a modest victory from the rival Centre party – clearing the way for another four years of the so-called "rainbow coalition". Although the Social Democrats lost 12 seats and saw their share of the vote fall to 22.9 per cent – down from 28 per cent in the 1995 election – they still emerged as the single largest party with 51 MPs in the 200-seat parliament.

The shape of the new government will now depend on the outcome of protracted negotiations between the SDP and the rival Centre and Conservative parties, which both won new parliamentary seats.

If Mr Lipponen fails to agree terms with the Conservative party, one of its four partners in the current coalition, it could enable the Centre party led by Esko Aho to form a government.

The prime minister has pledged to consult both Mr Aho and Sauli Niinistö, the Conservative leader, on the likely complexion of a new administration before flying to Berlin this week for the summit of European Union leaders.

All three party leaders, including the euro-sceptic Mr Aho, vowed that the negotiations would not lead to any change in Finland's EU policies, relations with neighbouring Russia and the decision to remain outside Nato.

They also committed themselves to pursuing the Agenda 2000 financial reforms of the EU – something the current government hopes will be agreed before Finland assumes the EU presidency in the second half of this year.

But the prospect of any accord between the SDP and the Centre party looked remote after Mr Lipponen accused Mr Aho of being anti-European in his EU policies and promising public sector spending increases that it could not deliver.

The most probable outcome of the election is a continuation of a Social Democrat-led coalition – including the Leftist Alliance and Green parties – but with concessions to the business-friendly Conservative party.

That should mean that Mr Niniistö will continue as finance minister, with a strengthened power base in parliament.

As such, he will be in a strong position to seek broad tax cuts and to persuade the SDP to abandon plans for new capital taxes.

The Conservatives may also push for the construction of a fifth nuclear power plant in Finland, in spite of opposition from the Green party.

WTO CHIEF ANOTHER CONTENDER FALLS OUT OF CONTEST TO LEAD WORLD TRADE ORGANISATION

Two-horse race for top trade post

By Frances Williams in Geneva

Mike Moore, former New Zealand premier, and Supachai *Panitchpakdi*, Thailand's deputy prime minister, are now battling it out to become the next director-general of the World Trade Organisation after Morocco withdrew its candidate yesterday.

Trade diplomats said the withdrawal *of Hassan Abu*youb, former Moroccan trade minister, could clear the way for a quick decision on the successor to Renato Ruggiero of Italy whose term ends on *April 30. A fourth candi*date, Roy MacLaren of Canada, has been eliminated from the contest although he *has not* formally withdrawn his candidacy.

The likely redistribution of Mr Abuyoub's support between the two remaining candidates was the subject of speculation yesterday. His backing came predominantly from Africa and the Gulf, *but he also had support from* eight European Union members including France and Spain.

"Where France and Spain go now is absolutely critical," *one* trade *official* said yesterday. As he spoke, Mr Supachai was preparing to leave for Paris and Madrid where he will see top trade officials in what may prove the turning point for his campaign.

Morocco is urging a switch to Mr Supachai, in return, some trade diplomats said yesterday, for the promise of a deputy director general's *job for Mr Abuyoub.* However, some African countries are said to have already pledged support for Mr Moore, who has US backing. The New Zealander is in *Mexico this week* attending a conference.

Before Mr Abuyoub's withdrawal, the two candidates were running almost neck and neck, with Mr Supachai slightly ahead in the latest assessment of strength of support among the WTO's 134 members.

Both have backers from all parts of the world though Mr Moore has more Latin Amer*ican support* and Mr Supachai more support in Asia. New Zealand and Thailand are both members of the Cairns group of agricultural free traders.

The final decision is supposed to be taken by consensus, and so far no country has threatened to block either of the two candidates left in the running. In particular, the US has given assurances that it will not veto Mr Supachai, despite earlier rumours to the contrary based on Mr Supachai's reservations over linking labour rights and the envi*ronment to trade.*

Meanwhile, though the EU still insists it is seeking a common candidate this may be hard to secure in practice, given the current disarray of the European Commission.

In its announcement of Mr Abuyoub's withdrawal, the Moroccan government cited "unacceptable political pressures" in the selection process and said it lacked transparency and fairness.

However, trade diplomats said there had been nothing more than the normal political campaigning and horse-trading characteristic of top *international appointments.* The process is being overseen by Ali Said Mchumo of Tanzania, current chairman of the WTO's ruling general council.

Airbus notches up another Spanish success

By David White in Madrid

Airbus, the four-nation European aircraft manufacturer, extended its conquest of the Spanish market yesterday by signing a *prelimi*nary deal with the private-sector Spanair airline for up to 45 aircraft worth \$2.2bn.

It was Airbus's third victory over Boeing in a contest for a big Spanish fleet renewal programme in just over year, following two con*tracts with the national flag*-carrier Iberia. Together the deals cover 132 aircraft costing about \$6bn at list price.

Both Iberia and Spanair have, *until* now, mainly relied on Boeing and McDonnell Douglas aircraft, but will now become predominantly Airbus operators.

Spanair said it was switching to Airbus for its short and medium haul routes, replacing its McDonnell *Douglas MD-80s. The deal* includes 21 firm orders in a mix of leasing arrangements and outright purchases, and a further 12 options.

The aircraft are all of the single-aisle A319, A320 and A320 family, already operated by more than 80 other airlines. They will be powered by V2500 engines made by International Aero Engines, the consortium headed by Pratt and Whit*ney and Rolls-Royce. Deliv*eries start in September next year and run to 2005.

The purchase marks an ambitious expansion drive by Spanair, in which Scandinavia's SAS holds 49 per cent alongside Spain's privately owned Viajes Marsans travel group. It follows complaints by SAS about late deliveries of Boeing aircraft it has on order.

Set up as a charter airline *in 1988, Spanair began oper*ating scheduled services five years ago. Gonzalo Pascual, its chairman, said the airline would certainly take all 45 aircraft and might seek to speed up deliveries. With the Airbus order, it aimed to increase its fleet to more than 50 aircraft, compared with 32 at present.

Iberia, now in the process of being privatised, is moving towards exclusive use of *Airbus aircraft on its domes*tic and European routes. Last year it reached a deal covering 76 short and medium-haul Airbuses and also placed a provisional order for 11 long-haul A340s.

The Spanish government denied having influenced Iberia in its switch to Airbus, in which the state-owned Spanish aerospace company Casa is a partner.

Asian centres jostle for supremacy in e-commerce battle

HK's Cyberport is the latest attempt to lure IT multinationals, writes **Rahul Jacob**

For a project that is not even under construction, Hong Kong's *Cyberport* initiative has already generated plenty of controversy. The local government this month announced that it had given the go-ahead for a plan to build a HK\$13bn (US\$1.68bn) residential and office complex with so-called "intelligent buildings", offering information technology (IT) companies dedicated state-of-the-art telecommunications networks that allow high-speed data transfer.

The government and the project's promoters, Pacific Century Group, a local company, *says it aims to* make Hong Kong a hub for electronic commerce.

Its critics deride the Cyberport as a belated attempt by Hong Kong to catch up with Singapore and Malaysia, which have similar projects to attract information technology multinationals and foster local talent. "Promoting e-commerce with a large bricks and mortar investment is silly," says Chris Westland, who heads the department of information systems and management at Hong Kong's University of Science and Technology.

Local politicians and developers, meanwhile, have criticised the government for giving Pacific Century the contract to build the complex without a competitive bidding process.

On a recent visit to Hong Kong, Bill Gates, chairman of Microsoft, the world's largest software company, said Microsoft would have facilities at the site when it was ready. He applauded the project as another sign that governments were taking opportunities on the internet seriously.

In Asia, it has recently seemed as if governments talk of little else. Singapore touts its Singapore One proj*ect as the world's first* nationwide broadband network and expects to reach its goal of high-speed connections to the internet for every home and business in a year or two. Malaysia has spent billions on its Multimedia Supercorridor, but the reality falls short of the hype.

Asian governments covet the ceaseless innovation of US information technology companies. *Inevitably*, they are groping for the right blend of incentives and subsidies, deregulation and competition to create innovation on demand.

Enter Hong Kong's Cyberport. The government is providing Pacific Century with *the land for the complex, the* standard practice for infrastructure projects, including the new airport.

Donald Tsang, financial secretary, says that in today's world, high-speed fibre optic facilities like the ones planned are as much a part of infrastructure as roads and highways. "The definition of public goods must be refined over time to meet public demands," says *Mr Tsang.* Peter Hitchen, an internet analyst with International Data Corporation (IDC) in Singapore, agrees. "The fight to provide the most bandwidth at dedicated sites is the key to becoming the e-commerce hub in the region," says Mr Hitchen.

On paper, at least, Hong Kong is off to a good start. Pacific Century has announced that its anchor tenants will include IBM and Hewlett-Packard, *the US* computer groups, Yahoo!, the internet service provider, and Oracle, the US software group. The project, however, will only be completed in phases starting between 2002 and 2007, which makes many of the companies involved reluctant to elaborate on their plans. "It is too early to talk about specifics," says Jack Lee, managing director for Hewlett-Packard in Hong Kong.

Multinationals such as Hewlett-Packard and about 100 small, mostly local, companies will receive subsidised office and residential rents. The small companies will have access to multimedia laboratories and cyber-libraries. Pacific Century also has ambitious plans to attract some of the Chinese diaspora who have been *making waves in California's* Silicon Valley.

Alex Arena, chief executive of Pacific Convergence Corporation, a joint venture between Pacific Century and Intel of the US, concedes this may be difficult. "It's hard to convince someone who is 28, lives in a large house and may have earned a few million on internet stock to come out and live in Hong Kong," he says.

In reality, the US is the only global information technology hub – most internet traffic goes to US web sites – but many believe there will be more opportunities for web site designers and internet businesses elsewhere soon.

Indeed, the projections for *e-commerce in Asia* look about as enticing as they do elsewhere in the world. IDC forecasts that e-commerce revenues in Asia (excluding Japan) will surge from US\$723m in 1998 to US\$33bn in 2003. This will require customisation of sites to meet local needs. "Purchasing clothes online won't be as successful as it has been in the US. The US already has a catalogue culture where you buy goods you haven't seen and have them delivered to your door," says IDC's Mr Hitchen.

'Promoting *e-commerce with* a large bricks and mortar investment is silly'

Few question the promise of the internet even though profits remain elusive, but some observers in Hong Kong wonder whether a big *building complex is the best* way to get there. Mr Westland, author of the upcoming book "Global Electronic Commerce", says Hong Kong would be better advised to subsidise internet services for small businesses in the territory to help more of them peddle *their wares on* the net. Hong Kong also trails Singapore in establishing standards for payment and credit monitoring of internet transactions.

The government, Mr Westland says, needs to help establish financial and security standards for digital cash transactions in the territory. Both are challenges more urgent than a gleaming infotech office complex.

Pointing *to the modest* Seattle headquarters of Amazon.com, the online book company, Mr Westland observes: "In cyberspace, no *one cares* how pretty your office looks."

Storm over port contract award

Hong Kong's government yesterday attracted further criticism over its Cyberport project announced within the budget at the beginning of this month, writes **Rahul Jacob**.

The decision to grant the project, including 26 hectares of land, to a company owned by Richard Li, the son of *Li Ka*-shing, the property tycoon, without inviting bids from other companies is a departure from the government's open tender *system* for selling land sites. Mr Li's company will invest HK\$7bn (US\$900m) in the project.

Developers have joined politicians in criticising the absence of competitive bidding. Yesterday, an executive with a large local conglomerate said a number of companies were still awaiting clarifications from the government.

"The structure of the deal is quite different from what they've *done* before," said the executive. Developers have also been concerned, he said, that the government's insistence that rents be subsidised for information technology companies would distort rents in other parts of the city.

The government has said it chose not to tender the project because it would have delayed it. Donald Tsang, financial *secretary*, said at a public forum on the project last week: "Cronyism is never in Hong Kong's dictionary."

MEETING WITH PRIMAKOV ISRAELI PRIME MINISTER EXPRESSES ALARM ABOUT THREAT OF NUCLEAR PROLIFERATION IN THE REGION

Netanyahu urges Russia to increase Middle East ties

By John Thornhill in Moscow

Benjamin Netanyahu, Israel's prime minister, yesterday urged the Russian government to become more active in the Middle East peace process while expressing alarm about the threat of nuclear proliferation in the region.

Mr Netanyahu said he was concerned that Iran, which "could not be characterised as a peace-loving" country, was developing dangerous nuclear and missile technology. "This ought to concern the Russian leadership as well," he said.

But Yevgeny Primakov, Russia's prime minister, who has long had close ties with the Arab world, assured Mr Netanyahu that Moscow's plans to build a nuclear power station in Iran were purely for civilian purposes.

"I can state quite clearly and unequivocally that Russia observes all international norms relating to export controls and does everything necessary to exclude any leaks that would would help proliferation of weapons of mass destruction. It has been and remains our policy," Mr Primakov said.

Following their meeting, the two prime ministers said they would take unspecified measures to increase international confidence about this issue.

The dangers posed by nuclear proliferation in the Middle East are also likely to be raised by the US administration when Mr Primakov visits Washington today.

Mr Netanyahu, who is campaigning for elections in May, was in Moscow yesterday on the second leg of a three-country tour of the former Soviet Union.

Barak sets out to form united front against Likud

Ehud Barak, leader of Israel's opposition Labour party, last night bolstered his campaign to defeat Benjamin Netanyahu in the May elections by launching the "One Israel" movement, **writes Judy Dempsey in Jerusalem**. The movement is aimed at bringing under one umbrella the widest possible spectrum of leftwing, liberal and centrist opinion, while incorporating secular and religious Jews and Israel's Arabs.

It includes Meimad, a liberal Zionist religious party which broke away from the National Religious party which had become increasingly rightwing. David Levy's Gesher party, which recently broke with Mr Netanyahu's coalition government, has also switched to Israel One.

The Israeli prime minister appears keen to woo the electoral support of his country's large Russian minority. Tens of thousands of Russia's Jews fled the country in Soviet times to escape religious persecution.

Relations between Russia and Israel, which were extremely strained in the Soviet period, have rapidly improved since the two countries restored diplomatic relations in 1991.

Mr Netanyahu said Israel now had "excellent" ties with Russia which were flourishing across many fields. He said great opportunities now existed to promote closer commercial links between the two countries, marrying Israeli technical expertise with Russia's manufacturing capacity.

But after visiting a Jewish school in Moscow, Mr Netnyahu condemned the recent rise of antisemitism in Russia, saying it disfigured the whole of society. Intolerance of Jews would lead to persecution of other minorities which would eventually destroy the very concept of a society, he warned.

Earlier this year, General Albert Makashov, a Communist MP, provoked outrage by blaming Russia's current economic problems on the Jews. Several synagogues have been attacked recently.

Mr Primakov said the Russian government would step up its efforts to combat extremism. In talks with US Jewish groups in Moscow yesterday, Mr Primakov reiterated his pledge to stamp out attempts to inflame religious and national hatred.

Opec determined to reach the oil price 'comfort zone'

Exporters this time will make the cuts stick, believing that at $18 to $20 a barrel they can repair their economies without destabilising importing countries, writes **Robert Corzine**

Money, or more precisely the lack of it, may not appear as a formal item on the agenda of today's meeting of the Organisation of Petroleum Exporting Countries in Vienna. But money is what will be on the minds of the group's 11 oil ministers as they rubber-stamp an agreement with leading non-Opec exporters to cut crude production worldwide by more than 2m barrels a day from April 1.

"People want some extra money," is how one Gulf Arab official yesterday summed up the motivation behind the deal, the outlines of which emerged after meetings in The Hague two weeks ago. The unanimity that usually proves so elusive at Opec meetings seems likely to prevail.

Although sanctions-bound Iraq is not party to the deal, the remaining Opec members appear to have bought its underlying logic as presented by Saudi Arabia, the world's biggest crude exporter, that an average 7 per cent cut in output could add more than 50 per cent to the depressed pre-agreement crude price.

The recent rise in oil prices will reassure the ministers, many of whom no doubt hope it will continue until prices are back in their "comfort zone" of around $18-$20 a barrel, the level at which many Gulf Arab economies seem to be structurally geared to.

Today's agreement is also testimony to the severe shock that last year's price collapse gave to oil-dependent economies around the world. The speed of the collapse highlighted just how volatile oil markets have become at a time when the dependence of many producing countries on oil revenues is growing. It was only just over two years ago that prices were approaching $25 a barrel for North Sea Brent Blend. A few months ago Brent was under $10.

Yesterday Opec officials voiced optimism that this deal, unlike previous ones, would stick

Yesterday Opec officials voiced optimism that this deal, unlike previous ones, would stick because it had support at the highest political levels. That may be so. But looked at another way, that merely confirms the brittleness of many Opec economies and their inability to withstand any prolonged period of low prices.

But does it follow that the economic struggle between oil producers, desperate to make up for lost revenues, and industrialised countries keen for continuing low energy prices to maintain economic momentum, is about to be re-ignited? Or is there a price which, over the medium term, balances the financial concerns of producers with the macro-economic and geo-political goals of the west and the commercial concerns of the international oil industry? There are those who argue that a medium-term average of $16 or so for Brent, which implies an average of about $18 for West Texas Intermediate, the US benchmark, addresses a number of issues.

Such a price would alleviate rather than lift altogether the financial pressures on the worst hit exporters, so there would still be an incentive to restructure moribund oil economies in the Gulf and elsewhere. But it would probably be high enough to limit the threat of social unrest in the most vulnerable producers. A $16 average Brent price would also be high enough to enable Iraq to realise the $5.3bn six-monthly revenue target of the oil-for-food programme at current production levels.

Although nearly $3 higher than last year's average, it would be at the lower end of the $15-$21 a barrel range in which Brent has traded for much of the past 10 years. "A $20 oil price means interest rates in the US will go up," says Joe Stanislaw at Cambridge Energy Research Associates, and that would undermine any global recovery in oil demand.

But $16 would be high enough to ensure the continuing diversity of global oil supply: "At $16 the North Sea has a future," says Malcolm Brinded, head of Shell UK, one of the biggest North Sea operators. Such a price would also probably be high enough to ease the recent precipitous decline in US onshore production.

The $16 a barrel level also has resonance in the Caspian Sea region, an area which the US is keen to see developed for geo-political reasons: "Two years ago sentiment in the Caspian was comfortable only at $18-$20 a barrel," says a senior executive at a big US oil company. "Now we're probably confident at around $15-$16 a barrel."

Such a price level would also be low enough to encourage continuing restructuring and technological innovation in the international oil industry, thus ensuring that over time exploration, development and production costs will continue to fall.

But Opec, which often talks in vague terms about a fair price for producers and consumers alike, has so far rejected suggestions that it set a specific price target against which it, and perhaps other non-Opec producers, would automatically adjust production up or down.

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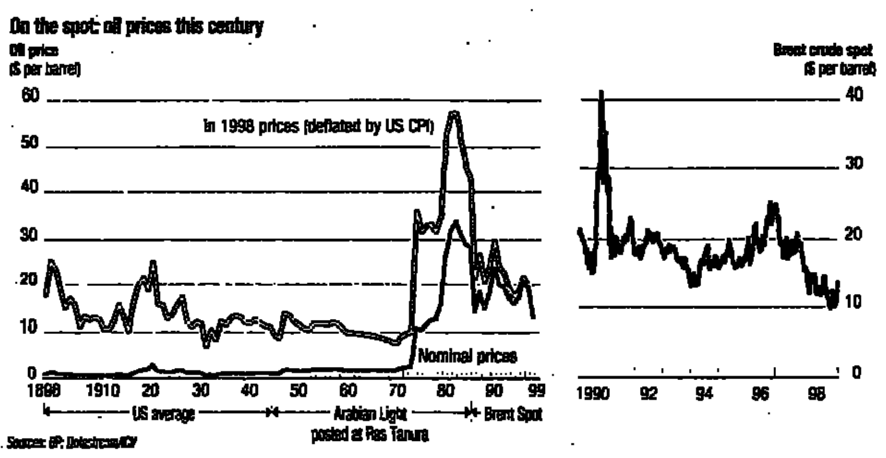


Gap wider over Year 2000

By Paul Taylor in London

Gaps between leaders and laggards in the race to ensure computer systems can cope with the Year 2000 date change are widening, according to a US report published yesterday.

"The companies and governments farthest ahead significantly increased the speed of compliance effort, and extended the gap between themselves and the ones further behind," said US-based Gartner Group, an information technology consultancy.

Among the best prepared countries are Australia, Belgium, Bermuda, Canada, Denmark, Holland, Ireland, Israel, Switzerland, Sweden, the UK and the US.

The bulk of least prepared countries are developing nations, but they also include China and Russia. The report noted: "Efforts to get less-developed countries and lagging industries moving more quickly have met with minimal success by international groups and associations."

Governments and government agencies lag behind the private sector in preparing for the millennium bomb. Even among the most advanced countries, Gartner estimated there was a moderate risk of serious disruption to government services.

In lagging countries, Gartner said there was a moderate risk of severe power supply interruptions, telephone problems, disruptions to air transport, interruptions to imports and exports. In the least prepared, there was a risk of "bank interruptions and panics".

The Gartner analysts said the US government had extended its lead in year 2000 compliance. However, the report noted several other countries and industries had made particular progress since October 1998.

These included Mexican and Hong Kong banks, the largest Japanese companies, large companies in France, most large companies in industrialised contries and US federal government agencies, infrastructure utilities and banks.

The furthest behind included airports, shipping and railroads, health care, agriculture, construction and education.

Last year, Gartner estimated 15 to 30 per cent of IT budgets was spent on IT compliance, up from 5 per cent in 1997. The analysts forecast this figure would rise to between 20 per cent and 40 per cent this year.

JAPANESE EQUITIES SURGE IN PURCHASES INDICATES GLOBAL INVESTORS MORE OPTIMISTIC ABOUT ECONOMY

Foreign buying of Japan stocks hits peak

By Gillian Tett in Tokyo

Foreign institutions have bought record volumes of Japanese stocks in recent days, as global investors have become more optimistic about the outlook for Japan's economy.

Data from the Tokyo Stock Exchange (TSE) show that in the second week of March net purchases of Japanese equities by non-Japanese investors reached Y776bn ($6.6bn), against a weekly average of Y300bn in the previous five weeks.

This is the highest figure ever recorded for the purchases and the eighth consecutive week of such activity by global investors.

The TSE has not yet released data for last week. But traders report that foreign institutions made similar, heavy purchases in recent days.

The Nikkei 225, the key stock market indicator, closed at an eight-month high of 16,378.78 on Friday, 5.7 per cent up on the week, and 22 per cent up since the start of the year.

The stock market was closed in Japan yesterday for a holiday. But some analysts believe the purchases may continue this week as well.

Garry Evans, strategist at HSBC Securities in Japan said: "This unprecedented net buying by foreigners gives some indication of the close-to-panic conditions which some [investors] have got themselves into. The potential for more buying is enormous".

The surge is believed to have occurred because most foreign investors were underweight in Japanese equities last year, because they were gloomy about the economy.

HSBC suggests that, on average, non-Japanese institutions have been holding only half to two-thirds of the level of shares that would be indicated by a "neutral" index, or some Y30,000bn less than this "neutral" index might imply.

Most private-sector economists are still forecasting that the Japanese economy will contract this year. In recent days, many investors have become alarmed that this underweight position will leave them exposed if Japan does recover slightly.

One reason is that the Bank of Japan may be forced to unveil a more expansionary monetary policy soon. A second is that the government's recent banking reform measures have reduced the risk of a financial crisis.

A third factor is that recent corporate restructuring has boosted hopes that the country is finally implementing structural reform.

Some global investors fear that the US stock market is now at its peak. One US hedge fund trader said: "People have the feeling it's too risky to ignore Japan right now, particularly with the currency strengthening."

Some institutions suspect that this rally will not be sustained.

The foreign purchases come at a critical time for the Japanese corporate world, since Japanese companies traditionally value their equity portfolios at the end of the fiscal year.

A treadmill of growth and recession

Gillian Tett reports that big government spending packages may not have a sustained effect

This decade Japan's economy has seemed stuck on a depressing treadmill. Over and over again, the government has pulled the economy out of recession with spending packages – only to watch it splutter to a halt when the stimulus package came to an end.

This spring, however, the treadmill is taking a newly dangerous turn. For in recent weeks some tantalising hints of recovery have emerged, leaving Keizo Obuchi, prime minister, cheerfully proclaiming an end to last year's recession.

But though these upbeat signals have pushed the stock market sharply higher, most of this recovery still appears to stem from spending packages. And the danger now is that growth will splutter out again later this year – forcing the government to simply repeat this "stop-go" cycle.

The fundamental problem is that there is still little evidence that the latest record Y24,000bn ($205bn) spending package unveiled last autumn is in fact creating a self-sustaining recovery in the private sector. The gross domestic product data for last October-December period, for example, showed a startling annual growth of 10.6 per cent in the level of public sector investment.

However, this was not matched by the rest of the data. Private capital expenditure, for example, dropped a record 17.2 per cent in this period, consumption fell 0.1 per cent, and even exports dropped by 6.2 per cent – leaving overall GDP down 3.2 per cent on an annualised basis.

Since then, monthly figures have painted a brighter picture of private activity. Corporate bankruptcies have tumbled, and surveys of business sentiment have become less gloomy. Excess industrial inventories dropped 1.8 per cent between December and January, while industrial production rose 0.4 per cent, the second month of growth.

There have also been hints of a stronger consumer sentiment. But for every sign of upturn there is still a sign of gloom. Exports remain very weak, capital expenditure is dropping and production in some leading sectors, such as cars, is still falling. On the consumer side, overall sales data from retailers remains depressed, strangely contradicting the household expenditure survey, which indicated spending was 1.4 per cent higher.

Meanwhile, any upbeat data are often linked to government spending. Corporate bankruptcies have fallen because the government is extending huge, subsidised loans to small companies. The rebound in housing starts is similarly put down to the ultra-low, subsidised mortgage rates which the Housing Loan Corporation, the state lender, is offering. And a big factor for the surge in business confidence is that higher infrastructure spending is, in effect, bailing out the construction industry.

The government insists that these caveats should not matter. If industrial production and consumption is indeed stabilising, this could still create a modicum of growth in the first half of the year, given that last year's data were so dire.

But the danger will come when the Y24,000bn spending package starts to run out in the middle of this year.

The outlook for corporate investment is still extremely bleak, as most companies over-invested earlier this decade. "Overcapacity and low corporate profits will keep corporate expenditure on a downward trend," forecasts Brian Rose of Warburg Dillon Read, who fears that this falling investment could "slice nearly 1 per cent off gross domestic product in fiscal 1999".

A second problem is that this corporate restructuring is also pushing up unemployment, limiting a recovery in consumer spending. Jeffrey Young at Nikko Salomon Smith Barney calculates that merely to restore labour productivity to the 1997 level, manufacturers must either reduce employment by an additional 5 per cent at the current output level, or boost production by more than 5 per cent. "We expect wage compensation to fall by 2.3 per cent in fiscal 1999, keeping real disposable income growth negative even with additional income tax cuts of Y2,000bn to Y3,000bn," he said.

In the short term the stock market may indeed be correct to celebrate a small economic rebound. In the long term, however, Japan's "treadmill" of growth and recession is becoming costlier with every cycle.

Keizo Obuchi speaking to cadets yesterday: the prime minister has been proclaiming an end to last year's recession AP

Chinese bank eyes new securities

By James Harding in Shanghai

China Construction Bank (CCB), one of the country's big four state-owned banks, is seeking to become the first financial institution to issue mortgage-backed securities.

The proposed launch of the new financial instrument would enable the Chinese bank to raise capital and therefore increase its capacity to grant new loans.

The plans, which are under review, are part of China's broader efforts to use the reform of the real estate market to reinvigorate the economy. In this case, the issue of mortgage-backed securities could use the surge in private property ownership to help improve the health of the state banking sector.

The CCB branch in Shanghai, which is the largest mortgage lender in a city where home ownership is increasingly common, has laid out its plans to sell the securities to the government and financial authorities.

Yang Minqiu, an official at the bank's real estate credit division, was quoted yesterday as saying: "We're now working on the possibilities of launching mortgage-based securities... We must have a strong capital base to lend to more buyers. But to issue such securities is a very complicated process and the approval will take time."

CCB plans to sell the mortgage-backed securities – bonds backed by pools of mortgages – to specialised financial institutions to raise capital.

Under the proposal for the securities, the lender will sell on the mortgages to an intermediary who bundles them into pools and sells them as securities to investors. The securities make monthly payments to investors as homebuyers pay off their mortgages.

CCB expects to lend RMB 8bn-RMB 10bn ($966m-$1.2bn) in mortgages in Shanghai this year, according to the report yesterday in the Shanghai Daily.

Home purchases grew 55.4 per cent in the city last year, with nearly 90m square metres of apartment space changing hands. About 83.2 per cent of the buyers were individuals.

Portugal and China spat over Macao

By Rahul Jacob in Macao

Portugal and China appear to have run into snags in the final countdown to the handover of Macao on December 19 this year.

At the end of a five-day visit to the tiny enclave, Jorge Sampaio, Portugal's president, yesterday said he might not attend Macao's handover ceremony if some pending disagreements were not resolved in a way that allowed both countries to participate with dignity.

"I want to come and I want to go with my face looking up. We are a proud country," said Mr Sampaio.

The most contentious issue between the two countries remains the Chinese proposal to send a garrison of the People's Liberation Army (PLA) to Macao. The Chinese have indicated that they want to send their troops only as a show of strength that they hope will help put an end to Macao's periodic outbreaks of gang violence.

The Chinese have given assurances that the troops will not be used for law enforcement, which is a matter for the local administration under the post-colonial constitution, but the Portuguese argue there is no need for the PLA to be in Macao.

The subject came to the forefront again last Friday not long after official meetings with Mr Sampaio, when Qian Qichen, Chinese vice-premier, was asked if Beijing planned to send an advance guard of the PLA to Macao before the handover. He was quoted as replying: "Of course."

Mr Sampaio categorically denied the issue had been discussed during their meeting. His comments yesterday suggested that the difference of opinion between the two sides on the stationing of the PLA in the enclave remain as wide as ever.

"On the matter of the advance guard, I am not belligerent on this point, but we are entitled to an explanation," said Mr Sampaio.

His comments take on a special significance because he shares the responsibility for Macao's affairs with Portugal's foreign ministry.

China's leaders have committed themselves to attending Macao's handover, which means that Mr Sampaio's pending decision on whether to attend remains a diplomatic trump card in negotiations continue over the next several months.

Other unresolved issues are the post-handover status of Macao residents who were granted Portuguese nationality and the enclave's court of final appeal.

"The Portuguese want dual nationality for the people with Portuguese passports and do not accept the Chinese position that that can't be allowed," said a European diplomat.

Hanoi assails rights report

By Jonathan Birchall in Hanoi and Frances Williams in Geneva

Vietnam has bitterly criticised a United Nations report which accuses the country's communist government of continuing to restrict religious freedom, and which will be presented to the current session of the UN High Commission on Human Rights.

As the commission's annual six-week meeting began yesterday in Geneva, the official Vietnam News Agency described the report by the UN's special rapporteur on religious freedom, Abdelfattah Amor, as "groundless and biased".

The news agency also indirectly accused Mr Amor of using his visit as a pretext "to slander the Vietnamese government and its people, distort the situation here, and interfere in our internal affairs".

In his report, compiled during a visit to Vietnam last October, Mr Amor highlights the state's continuing control over religious appointments and institutions, while noting that individual adherents to the main religions are now allowed far greater freedom of belief than was previously the case. He also complains of official obstruction during the visit, which was made at the invitation of the Hanoi government.

Vietnam has been facing renewed international criticism over its human rights record following the arrest earlier this month of a 62-year-old dissident in Hanoi, Nguyen Thanh Giang.

■ The US and the European Union have not yet decided whether to sponsor a resolution or statement on human rights abuses in China during the meeting of the UN Human Rights Commission. European diplomats said that the issue would be discussed in Brussels tomorrow but a firm decision might not be taken until later.

The US administration is also in the process of making up its mind on a resolution, despite unanimous resolutions from both houses of Congress condemning China's human rights record.

ENERGY DEAL US COMPANY SNAPS UP GOVERNMENT STAKE

NZ in power group sale

By Terry Hall in Wellington

New Zealand's government has sold a 40 per cent shareholding in Contact Energy, the electricity and gas company, to Edison Mission Energy of the US for a higher than expected price of NZ$1.2bn (US$638m).

The sale allows the government to go ahead with the public float of the remaining 60 per cent of the state-owned generator in the latest of its "peoples' floats" which have proved enormously popular.

The proposed sale of Contact has raised intense public interest, with a record 250,000 "pre-registering" their interest to buy shares by late yesterday.

The sale of the so-called "cornerstone shareholding" in Contact to Edison Mission also paves the way for further successful sales of the other three companies formed from Electricity Corporation of New Zealand (ECNZ), the former state-owned generator.

Max Bradford, energy minister, met fierce opposition from Sir Selwyn Cushing, the former ECNZ chairman, and many others when he insisted that ECNZ be split up in an attempt to ensure greater competition.

He also determined that a big stake be sold to an overseas company to ensure that it was held by a "skilled, experienced operator who could add value".

Bill Birch, treasurer, said he was pleased with the sale to Edison Mission because it would spur increased competition. Proceeds of the sale would be used to retire debt.

The sale comes as the country's fiscal position is improving and raises the prospect that Mr Birch will be able to go ahead with tax cuts before the election later this year.

The sale also removes the prospect of considerable government embarrassment. It had been widely assumed that Contact would be sold to TranzAlta of Canada, the rival bidder, already a big player in the New Zealand electricity industry.

Mr Birch said Edison Mission made the highest offer, of NZ$1.2bn, or NZ$5 a share, NZ$854m above Contact's book value of NZ$384m.

Edison Mission has investments in 48 projects in countries including the UK, Australia, Spain, and the US. Five plants are being built in Indonesia, Italy, and Turkey.

NEWS DIGEST

BID TO QUELL DISPUTE BEFORE ZHU VISIT

China dismisses US espionage claims

China intensified its criticisms yesterday over US allegations of espionage, dismissing charges that it stole nuclear secrets from American laboratories as ignorant, arrogant and absurd. In turning up the volume in its defence against US spying charges, China appeared to be trying to quell controversy before a visit to Washington early next month by Zhu Rongji, China's premier.

Mr Zhu hopes to defuse American anger on a number of fronts while advancing negotiations on China's entry into the World Trade Organisation and seeking to reaffirm a policy of constructive engagement in US-China relations despite several disagreements.

Chinese officials said they believed that despite fierce criticism of Beijing in Congress, the US administration remained keen to highlight the positive aspects of its engagement with China. **James Kynge, Beijing**

CHINESE ECONOMY

Plan to create 10m jobs

China expects to create more than 10m jobs each year in the service industry to soak up millions of newly unemployed workers sacked by the state sector. Wang Dongjin, vice-minister of labour, was quoted yesterday in the official China Daily as saying that in seven large cities alone, there were 7m Chinese families who needed services such as electrical repairs and newspaper deliveries, which could create 20m new jobs.

The comments underline Beijing's increasing reliance on the tertiary sector to create employment as failing state industries sack millions of urban workers.

Gao Shangquan, president of the China Reform and Development Institute, calculates that every one percentage point growth in the service industry could generate 1.3m new jobs, according to yesterday's report. It said 10m jobs would be created in the sector if China's economy maintained this year's target of 7 per cent growth **James Harding, Shanghai**

RECOVERY IN TAIWAN

Exports and output boosted

Taiwan yesterday announced unexpectedly high growth in export orders and industrial output in the first two months of the year, raising hopes that the island has weathered the worst of Asia's economic storm.

The figures underscored optimism from solid export growth in January and February and added further energy to a powerful recent rally in Taiwanese stocks. But analysts warned it was still too early to forecast blue skies ahead for the economy, which has been buffeted by the effects of the regional crisis since the middle of last year.

Officials said export orders rose 2.12 per cent year-on-year in the first two months of the year, while industrial output grew 4.39 per cent. Most analysts had expected less substantial gains.

The figures helped Taiwan's main stock index to a three-month high close above the psychologically important 7,000 point level, strengthening a recent shares rebound that has accompanied a flowering of investor optimism since the start of the lunar year on February 16.
Mure Dickie, Taipei

VIETNAM REPORT

Company profits fall

Vietnamese companies reported falling profits and diminished production during 1998, mainly as a result of the regional economic crisis, according to a report just published by the official Vietnam Chamber of Commerce and Industry. The report, based on a survey of 800 state-owned and private companies across the country, says that just 47 per cent of companies surveyed made profits last year, against a 65 per cent in 1997. In addition, only 48 per cent of the companies reported an increase in production during the year, against 81 per cent in 1997, while just 31 per cent recorded increased exports, against 70 per cent the previous year. **Jonathan Birchall, Hanoi**

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1988	109.9	103.2	106.8	100.2	71.0
1989	115.2	108.5	109.9	101.9	74.9
1990	121.5	113.9	113.5	104.9	73.2
1991	126.6	116.3	117.3	108.4	74.1
1992	130.4	117.7	120.1	108.4	74.0
1993	134.3	119.2	123.1	108.7	76.4
1994	137.8	119.9	126.5	108.0	74.1
1995	141.7	122.2	129.7	105.4	68.7
1996	145.8	125.4	133.9	102.6	73.4
1997	149.2	125.9	138.0	101.5	79.1
1998	151.5	124.8	141.5	101.8	82.9
1st qtr.1998	1.5	-1.6	3.0	0.7	82.2
2nd qtr.1998	1.6	-0.8	2.9	0.5	83.5
3rd qtr.1998	1.6	-0.6	2.4	0.9	84.9
4th qtr.1998	1.6	-0.5	1.8	-0.7	81.1
March 1998	1.4	-1.5	3.1	0.6	82.4
April	1.4	-0.9	2.9	0.2	82.7
May	1.7	-0.8	3.0	0.2	83.2
June	1.7	-0.7	2.7	1.2	84.5
July	1.7	-0.2	2.1	1.2	85.2
August	1.6	-0.8	2.3	0.4	86.2
September	1.5	-0.9	2.8	1.2	83.4
October	1.5	-0.7	2.0	-0.2	80.5
November	1.6	-0.7	1.8	-0.7	81.3
December	1.6	-0.1	1.6	-1.2	81.6
January 1999	1.7	0.9	2.0	-1.3	80.9
February	1.6	0.5			82.7

JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1988	102.3	92.3	107.8	95.8	131.0
1989	105.1	94.2	114.0	96.6	123.5
1990	108.3	95.7	120.1	99.5	108.2
1991	111.9	96.8	124.2	103.6	113.2
1992	114.0	95.9	125.6	112.5	114.5
1993	115.4	94.3	125.8	117.6	131.9
1994	116.2	92.6	128.4	117.2	137.3
1995	115.9	92.0	132.5	114.5	138.3
1996	115.8	90.4	135.8	112.5	117.7
1997	117.4	91.0	139.7	109.9	111.5
1998	118.3	89.8	138.0	116.5	103.7
1st qtr.1998	2.1	0.4	0.0	3.8	107.0
2nd qtr.1998	0.6	-1.9	-0.2	7.6	100.9
3rd qtr.1998	-0.1	-1.9	-1.9	7.6	97.3
4th qtr.1998	0.7	-2.0	-1.9	4.8	107.6
March 1998	2.2	0.1	0.2	4.7	108.1
April	0.7	-2.0	-0.2	6.1	103.7
May	0.8	-1.9	-0.1	11.0	100.9
June	0.4	-1.9	-0.2	5.9	97.9
July	0.0	-1.9	-2.4	8.1	97.5
August	-0.1	-1.8	-2.8	8.3	95.2
September	-0.1	-1.9	-0.1	6.4	98.9
October	0.4	-1.9	0.5	6.7	106.5
November	1.0	-2.1	1.8	3.2	107.5
December	0.8	-2.0	-4.2	4.6	108.9
January 1999	0.1	-2.2	-1.4		111.7
February	-0.2				108.3

GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1988	101.4	96.2	110.1	106.9	109.9
1989	104.2	99.3	113.1	108.0	107.5
1990	107.0	101.0	118.0	110.3	109.9
1991	110.9	103.4	125.3	109.6	107.5
1992	116.5	104.9	139.0	115.3	110.0
1993	121.7	105.1	148.1	119.4	111.3
1994	125.1	105.7	152.4	112.1	109.8
1995	127.4	107.5	159.4	110.8	114.7
1996	129.3	107.1	163.3	109.7	109.9
1997	131.5	108.2	165.5	103.1	104.8
1998	132.8	107.8	168.2		105.1
1st qtr.1998	1.2	0.7	1.3	-5.6	104.1
2nd qtr.1998	1.4	0.1	1.7	-2.8	104.7
3rd qtr.1998	0.7	-0.7	1.8	-1.8	105.7
4th qtr.1998	0.4	-1.7	1.8		105.8
March 1998	1.2	0.7	1.2	-5.3	103.6
April	1.5	0.3	1.6	-3.2	104.0
May	1.4	0.1	1.6	-4.2	105.2
June	1.4	-0.1	1.8	-1.1	105.2
July	0.9	-0.4	1.7	-1.1	105.5
August	0.6	-0.8	1.9	-3.2	105.7
September	0.6	-1.0	1.9	-1.1	106.0
October	0.5	-1.4	1.9	0.0	106.3
November	0.5	-1.8	1.8	0.0	105.6
December	0.4	-1.9	1.9		105.5
January 1999	0.2	-2.3			104.8
February	0.2				103.8

FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1988	108.8	103.5	111.5	104.1	102.1
1989	112.6	108.7	115.8	105.2	99.7
1990	116.5	107.7	121.5	109.6	102.9
1991	120.2	106.4	127.1	113.4	100.7
1992	123.1	105.3	132.3	115.6	104.2
1993	125.6	103.0	135.6	118.1	106.6
1994	127.7	104.2	138.2		106.1
1995	130.0	109.6	141.5		106.1
1996	132.6	106.7	144.9		106.3
1997	134.2	106.1	149.0		102.2
1998	135.1	105.2	152.3		102.0
1st qtr.1998	0.6	0.6	2.6	n.a.	100.8
2nd qtr.1998	0.9	-0.3	2.4	n.a.	101.9
3rd qtr.1998	0.5	-1.3	2.1	n.a.	102.0
4th qtr.1998	0.2	-2.3	2.0	n.a.	103.1
March 1999	0.8	0.6	n.a.	n.a.	101.1
April	1.0	0.0	n.a.	n.a.	101.4
May	0.8	-0.3	n.a.	n.a.	102.2
June	0.9	-0.7	n.a.	n.a.	102.0
July	0.8	-1.0	n.a.	n.a.	100.8
August	0.5	-1.3	n.a.	n.a.	102.0
September	0.3	-1.6			103.1
October	0.3	-2.1			103.6
November	0.0	-2.3			102.8
December	0.2	-2.5			103.0
January 1999	0.2				102.7
February	0.2				102.0

ITALY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1988	116.5	105.7	118.4	108.5	100.9
1989	124.2	112.0	125.6	113.6	105.1
1990	131.7	116.2	134.7	122.5	111.9
1991	140.3	120.0	147.8	134.2	113.1
1992	147.7	122.3	155.7	138.8	109.5
1993	153.9	126.9	161.4	145.6	95.2
1994	160.0	131.6	166.9	139.9	93.3
1995	168.6	142.0	172.4	139.6	90.3
1996	175.0	144.7	177.4	146.6	102.0
1997	178.2	146.6	183.8	148.7	102.7
1998	181.2	146.7	188.6		104.3
1st qtr.1998	1.7	1.1	2.1	-5.7	102.3
2nd qtr.1998	1.8	0.6	3.1	-1.8	103.4
3rd qtr.1998	1.8	-0.2	2.8		105.1
4th qtr.1998	1.6	-1.2	2.6		106.2
March 1999	1.7	0.9	2.8	n.a.	102.2
April	1.8	0.9	3.0	n.a.	102.5
May	1.7	0.6	3.2	n.a.	103.7
June	1.8	0.4	3.0	n.a.	104.0
July	1.8	0.3	2.5	n.a.	104.6
August	1.9	-0.3	3.0	n.a.	105.0
September	1.8	-0.5	3.0		105.7
October	1.7	-0.9	2.8		106.2
November	1.5	-1.3	2.5		105.8
December	1.5	-1.3	2.5		106.2
January 1999	1.3	-1.7			106.0
February	1.2				105.6

UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1988	113.0	108.7	126.2	101.6	101.9
1989	121.6	113.9	137.3	107.0	100.5
1990	133.3	121.0	151.1	113.3	101.4
1991	141.2	127.5	162.9	118.9	104.4
1992	146.4	131.5	173.7	119.0	100.9
1993	148.7	136.7	181.6	118.8	93.1
1994	152.4	140.1	190.8	118.4	94.1
1995	157.6	146.0	199.2	123.0	90.7
1996	161.5	149.6	208.0	129.1	93.2
1997	166.5	151.0	216.6	134.0	108.5
1998	172.2	151.8	226.4	139.6	111.1
1st qtr.1998	3.4	0.6	5.1	6.1	113.2
2nd qtr.1998	4.0	1.0	4.6	4.1	112.6
3rd qtr.1998	3.3	0.6	4.6	3.8	111.7
4th qtr.1998	3.0	0.0	3.7	2.4	107.0
March 1999	3.5	0.9	5.5	5.3	114.2
April	4.0	1.0	5.0	4.8	114.4
May	4.2	1.0	4.4	3.9	110.4
June	3.8	1.1	4.4	3.6	112.7
July	3.5	0.8	4.9	4.4	112.9
August	3.3	0.5	4.6	3.8	111.9
September	3.2	0.3	4.3	3.4	110.1
October	3.1	0.1	4.4	3.5	107.2
November	3.0	0.1	3.5	2.1	107.0
December	2.8	-0.1	3.3	1.7	106.8
January 1999	2.4	-0.1		1.4	105.8
February		0.2			107.0

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

MICROSOFT ANTITRUST TRIAL

Justice takes tough line on hint of deal

By Richard Wolffe in Washington and Louise Kehoe in San Francisco

The US Justice Department yesterday adopted a tough stance towards overtures by Microsoft on talks to settle the long antitrust trial of the world's largest software company.

Joel Klein, head of the antitrust division at the department, insisted that officials would only agree to a deal which fully addressed the charges that Microsoft had engaged in wide-ranging abuses of monopoly power.

"We have not received any settlement proposal from Microsoft," he said. "The Justice Department has always been and remains open to a settlement that fully protects consumers and ensures that similar antitrust violations do not occur in the future."

In a reference to news reports of Microsoft's suggestion that talks could begin, Mr Klein said: "Let me just add that if there are any settlement discussions, it is best that they occur directly between the parties."

Microsoft indicated yesterday that it was prepared to compromise on some of the Justice Department's concerns, but drew a sharp line on the company's freedom to design its own products.

In particular, the company was unwilling to acknowledge concerns over its strategy of integrating new features and technologies into Windows – the operating software which drives more than 90 per cent of the world's personal computers.

Judge Thomas Jackson had suggested that both sides explore the possibility of a settlement before the trial was recessed last month. "We take that very seriously," a Microsoft official said, while declining to comment further on whether settlement talks were planned.

However, Microsoft said it was willing to "work with the government" on issues such as the terms of its software licensing contracts. Indeed, some terms of the contracts between Microsoft and personal computer manufacturers were changed last year to make them less restrictive.

Yet Microsoft was unwilling to budge on the "fundamental issue of our right to improve our products and integrate new features," an official said.

Microsoft maintained that it had established a "strong record on key issues" in the trial proceedings to date. However, "resolving the case without the need for further litigation would be to the benefit of the company, the government, consumers and the industry," the company said. Microsoft's shares were trading at \$173⅞ in mid-session yesterday, up \$2 from Friday's close.

Joel Klein insisted any negotiations between the two parties were done directly

Justice Department officials believe they have established a strong case against Microsoft over four months of evidence in court. The anti-monopoly trial adjourned three weeks ago and is scheduled to restart next month.

Officials, including the attorneys-general of 19 states also suing Microsoft, say their case already points to the need for strict remedies to be imposed on the company. They highlight evidence of Microsoft's alleged attempts to stop or alter the development of new technology, as well as its strategy of integrating new technologies into Windows.

Antitrust officials argue that Microsoft's integration strategy is an attempt to extend its monopoly into new markets. But Microsoft argues that its freedom to integrate products was upheld by the Washington appeals court in a related case last year.

Tax shelters under fire in Washington

By Deborah McGregor in Washington

The Clinton administration yesterday launched a strong attack on corporate tax shelters.

In a speech to corporate tax executives, Larry Summers, the deputy Treasury secretary, vowed to implement stiff new penalties aimed at reining in the aggressive marketing of questionable tax schemes that are draining billions of dollars annually from the federal Treasury.

He said the administration was anxious to foster a "culture of compliance" rather than simply chasing individual transactions on a case-by-case basis. To that end, Mr Summers said, his department would release a white paper next month to clarify what it viewed as abusive corporate tax practices.

Mr Summers signalled that the Internal Revenue Service and top Treasury officials were targeting deals that appeared to be constructed simply for tax-avoidance purposes and he said Treasury officials would more frequently publish administrative guidelines on tax policy, some of which could apply retroactively.

"It is not in our interest to subject taxpayers to out-of-control enforcement actions," said Mr Summers. "Conversely, we do believe there is a major problem."

The administration has long sought to close tax loopholes, but the latest drive is being fuelled by an unusual amount of activity surrounding several "tax products" being marketed by corporate tax shelter hustlers whose activities are costing the federal government at least \$10bn annually.

"There seems to be little doubt among the *cognoscenti* that the transactions we have caught, which cost billions a year, represent only the tip of the iceberg," said Mr Summers.

Sharing the administration's concern, the American Bar Association recently noted its "growing alarm [at] the aggressive use by large corporate taxpayers of tax products that have little or no purpose other than the reduction of federal income taxes".

Some tax lawyers have urged the Treasury to take action, partly to alleviate the tremendous competitive pressures in the industry to match frenetic marketing efforts currently under way.

Building on several tax proposals contained in President Bill Clinton's February budget, Mr Summers said the administration wanted to create "real financial risks" for all parties to tax-avoidance schemes, including those facilitators who might previously have been considered indifferent for tax purposes.

He proposed slapping a 25 per cent excise tax on lawyers and promoters who market such schemes. Penalties would also be assessed for understanding tax liabilities where it was found that tax shelters had been used.

"Without an improved penalty regime the temptation for taxpayers to play the audit lottery is too great," said Mr Summers. The administration's proposals are expected to receive a warmer than normal reception in Congress.

For example, Bill Archer, the Republican chairman of the tax-writing Ways and Means committee in the House of Representatives, has already signalled his willingness to review corporate tax shelters.

Smuggling and corruption are a way of life on Lake Titicaca

Lima has announced tough measures but when so many owe livelihoods to contraband it is an uphill task, says **Sally Bowen**

Long before dawn breaks, long-distance buses pull up in Puno, a sprawling and unattractive town on the shores of Lake Titicaca. It is Saturday and all roads lead to the the town's Bellavista contraband market.

Most of the arrivals are women, the *cholitas* of the Andes with their idiosyncratic headgear and many-petticoated skirts and it is they who help to turn Bellavista into an Aladdin's cave. Here they unload consignments of Brazilian-made Thermos flasks, Japanese sound systems, Chilean soaps and shampoo and Scotch whisky, Taiwanese sports shoes and disposable nappies.

All the goods they bring have entered the country illegally, many from Chile's duty-free port of Iquique, following a route around Lake Titicaca and across the southern Bolivian-Peruvian border, avoiding duties and Peruvian sales tax.

Along the northern shores of the world's highest navigable lake, contraband movements are on a much larger scale and potentially far more unpleasant. Convoys of up to 20 lorries trundle through the night, each carrying more than a dozen men, carrying automatic automatic weapons. According to customs officials in Puno, the guards are often drugged or drunk and disposed to violence.

Merchandise ranges from household appliances and car tyres to bulk foodstuffs: flour from Argentina, soya, sugar and cooking oil from Bolivia and Brazil.

For years, Peruvian manufacturers have railed against the contraband avalanche. Now President Alberto Fujimori has thrown his weight behind the search for a solution.

A high-level ministerial commission headed by Jorge Mufarech, employment minister, and including the ministers of defence and the interior have been told that fighting contraband is a top 1999 priority. According to Victor Joy Way, recently appointed economy and finance minister, merchandise worth between \$500m and \$1bn enters Peru each year without paying customs duties or general sales tax (IGV).

That harms both Peruvian producers and manufacturers and reduces job opportunities in legally constituted companies. By cutting into revenues it also "limits the states resources for developing health, education and other services," he says.

New measures in the making sound tough. In mid-January, a cabinet-approved decree declared a state of emergency in Puno department (where 70 per cent of all contraband is believed to enter). That gives the army special powers to intervene in a job at which the national police have proven themselves both inefficient and corrupt, while Sunad, Peru's customs authority, has never had the personnel or the infrastructure to make an impact.

Further legislation is under consideration which, according to President Fujimori, would subject smugglers armed with "weapons of war" to the same penalties as those accused of terrorist crimes (maximum sentence is life imprisonment).

Also drawing on Peru's plentiful counter-terrorist experience, Mr Mufarech says the government is considering a "repentance" system under which small-fry collaborators who inform on leading smugglers would receive reduced sentences or go free.

Early results do not look particularly heartening. In a first, early February combined operation against a convoy circling Lake Titicaca, members of one mafia group were detained and handed over for further investigation. Merchandise was confiscated but, according to commanding officer General Jose Villena, "most of the smugglers escaped" and no weapons were captured. Impoverished locals often defend the convoys – which provide a much needed source of income – attacking customs men and police with sticks and stones.

Puno residents are not convinced of the army's enthusiasm. Contraband convoys have, for years, rumbled unmolested past the army barracks on route from Bolivian border.

Locals have witnessed senior army officials accepting donations of goods (in one case, microwave ovens) in return for looking the other way.

A Peruvian with lemons smuggled from Ecuador Reuters

Another potential stumbling block is Peru's notoriously inefficient and often corrupt justice system. The one big *mafioso* arrested last year was freed within days by a local Puno judge and his lorries returned: local customs officials say the judicial decision was the result of a big pay-off.

Even given greater political will, success is far from guaranteed. In this still-neglected hinterland, contraband is a delicate social as well as an economic problem. At least half of all goods sold in Puno are contraband, says Victor Madariaga of the local chamber of commerce.

The estimated 8,000 "informals" or black-marketeers (mainly street-sellers and small-scale hauliers) operating in Puno and their 30,000 dependent relatives – about half the population – live from smuggling.

In nearby Juliaca, the numbers are substantially higher. "What people here desperately need is jobs," he says. "Families are on the breadline and small-scale contraband keeps the wolf from the door."

NORTHERN IRELAND UK GOVERNMENT DECISION COMES AMID EFFORTS TO BREAK DEADLOCK ON HANDOVER OF PARAMILITARY WEAPONS

Release of IRA prisoners challenged

FT Reporters in London and Belfast

The British government yesterday intervened to delay the release of four Irish Republican Army prisoners as intense efforts appeared to be under way to break the deadlock on the handover of paramilitary weapons in Northern Ireland.

The prime minister Tony Blair's official spokesman said the decision by Jack Straw, the home secretary, to challenge the release approved by the Sentencing Review Commission was taken on judicial grounds and was not related to political developments.

The decision is the first time the government has publicly disputed a decision by the Commission. Pro-British Unionists in Northern Ireland and the opposition Conservative Party in England have increasingly protested at the release of paramilitary prisoners while "punishment beatings" continue in Northern Ireland. A 13-year-old boy was in hospital yesterday after a savage beating by masked men with baseball bats left him with a broken arm and fingers.

Mr Straw is seeking a judicial review of the decision to give early release to the four men, including Patrick Magee who was convicted of the bombing of the Grand Hotel in the seaside resort of Brighton, southern England, during the 1984 Conservative Party conference.

The three others – Thomas Paul Quigley, Paul Kavanagh and Gerard McDonell, were due to be released today with Mr Magee due out in June. However, the home office is challenging whether the men's tariffs – the time they actually spent in jail – was calculated correctly.

"Jack Straw wants to make sure the due process is followed," said the prime minister's official spokesman. He said the government's view was that the Commission had made its calculation on the basis that the four had been sentenced in Northern Ireland rather than in England. Downing Street insisted yesterday the Home Secretary's move was based on judicial grounds and was not an attempt to apply pressure on the republican movement.

Earlier, after more than six hours briefing the 90 IRA inmates on the current stalemate, Gerry Kelly – prisons spokesman for Sinn Féin, political wing of the IRA, and himself a convicted IRA bomber – said any move to meet the Ulster Unionists' demand for some gesture on decommissioning had been ruled out.

Mo Mowlam, chief Northern Ireland minister in the UK government, yesterday held separate meetings with Sinn Féin officials and General de Chastelain, who is in charge of any arms handover. It is understood that General de Chastelain is actively working on a plan whereby both loyalist paramilitaries and the IRA would begin to seal or destroy some of their arms. The hardline statement from the prisoners came as Northern Ireland's nine pro-agreement parties met in roundtable session.

Prime minister seeks new beginning for EU

'Pro-Europe, pro-reform is a perfectly good position,' and is shared by the British people, Tony Blair tells **Philip Stephens**

This week's European Union summit probably matters more for Tony Blair than for any of the other presidents and prime ministers who will meet in Berlin. Their joint task is to pull the EU from the mire into which it was plunged by the resignation of Jacques Santer's Commission. But no one will have to pay closer attention than Mr Blair to the mood of domestic public opinion.

His European policy is founded on the assumption that within the next two or three years he can persuade a deeply sceptical electorate (and often Europhobic press) to give up sterling in favour of the euro. To do that, he has first to prove that Britain has a voice that counts, that it is a shaper of events rather than a victim.

Speaking to a group of European journalists in London yesterday, he was clear as to the first priority for the summit. The leaders should appoint a new president to serve for 5½ years. And that person should be Romano Prodi, Italy's former prime minister. "I have always made it clear", he opened, "that Romano Prodi has all the qualities to be an excellent president of the Commission ... He is a highly able man and he is a reformer."

The prime minister, though, is certain that a new mandate is as important as a new president. "We have got to make changes. We should seize the moment and regard the events of the last two weeks as an opportunity. People in Europe, not just in Britain but across Europe, will expect us to have a new president with a real mandate for change."

Yet when we discuss the nature of those changes, Mr Blair contrives to be both clear and opaque: clear on the short-term direction to be given to the new Commission, and on the financial controls and auditing mechanisms needed to avoid a repeat of the recent debacle; opaque on what, if anything, should be done in the longer term to rebalance the relationship between the Commission, the Council of Ministers and the European parliament.

Taking the short-term agenda first, Mr Blair will present his fellow leaders with plans for reform of the procedures for appointments, pay and accountability of Commission officials. A fraud investigation unit within the Commission would be reinforced by an independent external audit mechanism. Alongside more stringent scrutiny, he wants EU leaders to give the new president a mandate to concentrate on the things that matter: "This is what we want you to do, these are the things we want you to carry out." Completing the single market would be one priority. And in areas such as employment policy, the Commission should concentrate on co-operation rather than "over-regulation".

Beyond this immediate checklist, however, Mr Blair is far more cautious. He agrees that basic questions about the relationship between the EU's institutions have become "more pressing". But he does not sound anxious for the parliament to capitalise on its recent triumph or to make the Council of Ministers more accountable.

What's needed is reflection. "The European parliament is more directly democratic but it is more remote from people than their national parliaments or their elected governments. The Council of Ministers is closer to people in the sense that the British prime minister is directly accountable to the British electorate in a very obvious way and yet, in terms of the European decisions we take, it [the Council] is less directly democratic. That's the dilemma."

Mr Blair does not offer a solution but is clearly more interested in finding a stronger role for national parliaments than for the Strasbourg assembly.

On the question of renegotiating the rebate on Britain's payments to Brussels, he is firm. That, it seems, would be a bridge too far for domestic opinion. Britain is the second largest net contributor. In defending the rebate, he says: "We are not asking to be better off. We are simply asking not to be any worse off."

And on efforts to bring British voters around to the euro before say, 2001, he sounds confident: "Pro-Europe, pro-reform is a perfectly good position and I think it's where a large part of the British people are." But Berlin, he knows, will count.

Tony Blair: Commission should avoid over-regulation Brendan Corr

Finance workers vote for single trade union

By Robert Taylor, Employment Editor

A new trade union, representing up to 200,000 employees in the UK's financial services sector, was announced yesterday.

Unifi, which its leaders claim is the largest specialist finance union in the world, will be launched formally in May.

Ed Sweeney, one of the union's joint general secretaries, said: "The new union is a clear message to the finance industry that its staff need and want one voice."

The union plans to challenge financial institutions that are refusing to accept union recognition for their employees. Unifi leaders said they would be using the fairness-at-work legislation to regain recognition, lost three years ago, for managers at HSBC/Midland bank.

The union is the result of a merger between Bifu, the banking trade union, and the staff associations from National Westminster and Barclays. Members of all three gave overwhelming support to the merger.

Mr Sweeney said the union had enormous opportunities to grow in a sector that is estimated to employ up to 1.5m staff.

Unifi will target the group union of Lloyds-TSB, the other large UK bank, for membership. Its declared long-term aim is to create one union for all finance staff and end what union leaders describe as 80 years of bitter relations among unions in the sector.

Its architects regard Unifi as an organisational response to the past decade of job losses and branch closures in banking along with attacks on pay, conditions and staff levels.

Rory Murphy, who was general secretary of the Nat-West Staff Association, said: "The introduction of the euro and integration of Europe will add to the technology, increased competition and deregulation."

One of the union's first actions may be to ballot its members at NatWest for industrial action over a pay offer. The offer averages 3 per cent but many staff may receive no increase with most receiving less than the inflation rate.

The amalgamation ballot results were overwhelming. In Bifu, 37 per cent of staff responded in the postal vote with 96 per cent (36,960) in favour of the merger.

In the Barclays staff association, 39 per cent of members voted with 93.3 per cent supporting the new union. Some 43 per cent of NatWest association staff voted with 91.2 per cent in support.

SCOTLAND CONGREGATIONS MAY TURN THEIR BACKS IF PROJECT WITH EVANGELIST PAT ROBERTSON GOES AHEAD

Churches may boycott bank over TV deal

By James Buxton in Edinburgh

Bank of Scotland could face a boycott by Scotland's churches if it proceeds with a project to set up a US telephone banking operation with Pat Robertson, the television evangelist.

ACTS, an ecumenical body representing almost all Scotland's churches and 1.5m members, is being urged to close its account with Bank of Scotland and recommend to its member churches that they do the same. Members of ACTS oppose the deal because of Mr Robertson's rightwing views and his antagonism towards homosexuals, feminists, liberals and non-Christian religions.

Mr Robertson is best-known internationally for his failed bid for the Republican presidential nomination in 1988, backed by the party's ranks of conservative evangelical Christians. He is famed for such feats as ordering Hurricane Gloria to divert its course away from his television station, about which he has remarked: "I felt that if I couldn't move a hurricane, I could hardly move a nation".

He has also had a successful business career. He sold International Family Entertainment, the parent company of his US cable network, to Rupert Murdoch for $1.9bn two years ago. His business interests have included diamond mining, chemicals and banking – he was a director of one of Virginia's larger banks during the 1980s. He is a director of Laura Ashley, the UK clothes retailer.

Bishop Richard Holloway, the bishop of Edinburgh and the primus (head) of the Episcopal Church of Scotland, said Mr Robertson's beliefs were in conflict with everything the churches stood for. He said it would be in the bank's best interests to pull out of the deal.

Bank of Scotland announced this month it was forming a joint venture with Robertson Financial Services, a company owned by the 68-year-old Mr Robertson, to launch a direct banking operation modelled on Sainsbury's Bank, the telephone business it started in the UK in 1997 with J. Sainsbury, the supermarket group. The new operation would be marketed initially to followers of Mr Robertson.

The bank has applied to the authorities in New York for approval and expects the go-ahead in about four months. It refused yesterday to comment on the churches' moves or other expressions of opposition to the deal.

Bank of Scotland's relationship with Mr Robertson has been criticised in the Scottish media. The executive committee of ACTS – Action for Churches Together in Scotland – will recommend a boycott of the bank to its central council when it meets next month. Individual churches will then consider the issue.

The Episcopal Church of Scotland will meet in June. But the institution is dwarfed by the Presbyterian Church of Scotland which holds its general assembly in May.

It does not have its account with Bank of Scotland, but many individual churches do, as do people in their congregations.

Island finance sector has 'nothing to fear'

By Philip Jeune in Jersey

Jersey's finance industry has nothing to fear from OECD moves against tax havens, Colin Powell, deputy chairman of the island's Financial Services Commission, said yesterday.

"Jersey is no more a tax haven than Switzerland, Luxembourg, Singapore or Hong Kong," said Mr Powell, referring to offshore centres that have not been considered by the OECD as requiring investigation.

He said the Jersey authorities were confident of not being placed on the OECD list of tax havens because the island fails to meet the four main criteria – it has no anomalous taxes, no bank secrecy law, no lack of transparency and deals only with "substantial" businesses with high reputations.

He was reacting to recent suggestions that international concern about harmful tax competition could lead to legislative action that might affect Jersey's £230bn ($374bn) finance industry. Jersey is the largest of the Channel Islands between England and France, and makes its own finance laws.

Mr Powell dismissed the possibility of exchange controls on the movement of funds to the island, saying such a move could not be justified and would be against the principles that brought the European Union states together.

Richard Pratt, FSC director-general, also addressed the briefing, outlining the way in which the island is reacting to the recommendations of the UK government's Edwards Report, which examined the financial laws of offshore finance centres. "Around half are already covered by existing policies and practice while others, which are not terribly contentious, simply require a review of existing procedures. Some do not apply to Jersey at all, and the remaining 40-50, which are not current practice, require research as some of them involve important points of principle," he said.

NEWS DIGEST

SAFETY AT WORK

Engineering group given record fine after rail crash

A record fine of £500,000 ($815,000) was imposed on Balfour Beatty Rail Maintenance yesterday after the company admitted breaching health and safety legislation.

Concerns about the safety standards of the private companies maintaining and upgrading the rail network have been voiced frequently since privatisation with calls from the Health & Safety Executive, a state watchdog, for Railtrack to tighten its monitoring.

Railtrack, the privatised owner of most of the national rail infrastructure, said last month it planned to step up its safety procedures in the wake of an alarming increase in incidents involving contractors. The number of "unsafe acts" increased to a record level in the four weeks to mid November. The latest prosecution resulted from the derailment of eight wagons of a 21-wagon freight train in 1997. The incident occurred while Balfour Beatty was remedying drainage problems with the track.

The previous highest fine of £250,000 was imposed on British Rail, the former state rail operator, following a crash which killed 35 people near Clapham Junction in London in 1988. **Charles Batchelor, London**

FUEL AND VEHICLE TAX

Truck protest blocks London

Hundreds of truck drivers blocked streets in central London yesterday and caused long tailbacks on motorways in protest at increases in the cost of fuel and vehicle taxes. The growing protest by road hauliers at the increases has forced the government to agree to a meeting today with the Freight Transport Association and the Road Haulage Association to hear drivers' grievances.

John Reid, the transport minister, has also agreed to set up an industry forum involving the Treasury and the trade and industry department. David Green, director-general of the FTA said the government had been forced into a last-minute admission that its policies had created difficulties.

Frank Stears, a south-east England haulier and leader of the protest, said: "The road haulage industry has not got months for talks. Many people have only got weeks. The minister should be talking to people like us who actually drive the lorries." **Charles Batchelor and George Parker, London**

AIR TRAFFIC CONTROL

'No rush' on privatisation

The government said yesterday it would not be rushed into privatising the National Air Traffic Services, although it remained committed to attracting private sector investment. John Reid, transport minister, told a trade union conference on the future of the service: "We want to get it right, not get it rushed." Some officials have said the government is considering postponing the Nats privatisation until after the next national elections, not expected before 2001.

But Mr Reid indicated that the government had not abandoned its plan, announced last year, to sell off 51 per cent of the service. He said Nats needed private sector funds if it was to finance future investments.

Joe Magee, aviation officer at the IPMS union, which represents most air traffic controllers, said Nats' privatisation could compromise safety. He said Nats should instead be turned into a publicly-owned company with greater commercial freedom. Nats would remain wholly government-owned but would gain access to both public and private sources of finance. **Michael Skapinker, London**

VOTING SYSTEM

Premier's boost for reformers

Tony Blair has given MPs in the governing Labour party who favour electoral reform their best chance of persuading an overwhelmingly sceptical party to campaign for proportional representation in a forthcoming referendum. A Labour policy document released on Friday will in effect give activists who want a proportional voting system for national elections a year in which to win the argument in the party. Almost all UK elections are fought on the first-past-the-post system, under which the candidate with the highest number of votes wins even if that number is a minority of votes cast.

The elongated timetable marks a turn in fortunes for electoral reform campaigners, who feared the document would be biased towards retaining the existing system. In a sign Mr Blair is preparing to campaign for change, the consultation document contains his statement from last October that the independent commission on electoral reform had made a "powerful case" in 1998 for a proportional voting system. **Andrew Parker, London**

PORTABLE COMPUTERS

Watchdog to fund safety study

The Health and Safety Executive, a state watchdog, is to fund a one-year study of possible health risks from using portable and handheld computers. Researchers from System Concepts, an ergonomics consultancy, will conduct the study. The research is likely to focus on screen technology, which is changing rapidly and where, unlike with desktop machines, there is relatively little guidance. Other possible risks include the weight of some portables. "We are aware from our contacts among users and client organisations that the number of concerns associated with the use of portable computers appears to be increasing, although of course this may be due to the more widespread usage," said Tom Stewart, Systems Concepts' managing director. **Paul Taylor, London**

Blair races Pacific islands for 2000 glory

Fiji and Tonga say they will greet the millennium first but the UK premier thinks the world will be watching the Dome. **Sathnam Sanghera** reports

A little-noticed but increasingly bitter dispute is raging in the Pacific. Fiji, Tonga and the tiny island of Kiribati – all close to the international date line on the 180° meridian – each claim they will be first to greet the new millennium because they will have the earliest midnight on December 31.

By the time the clocks chime for midnight in the UK, half of the world will have already celebrated the coming of the year 2000. But a brochure for the Millennium Dome, Britain's £758m ($1.2bn) flagship millennium project near the River Thames in Greenwich, south-east London, declares: "The second millennium will begin at midnight Greenwich Mean Time – on the line of zero degrees longitude, which runs through the site of the dome at Greenwich."

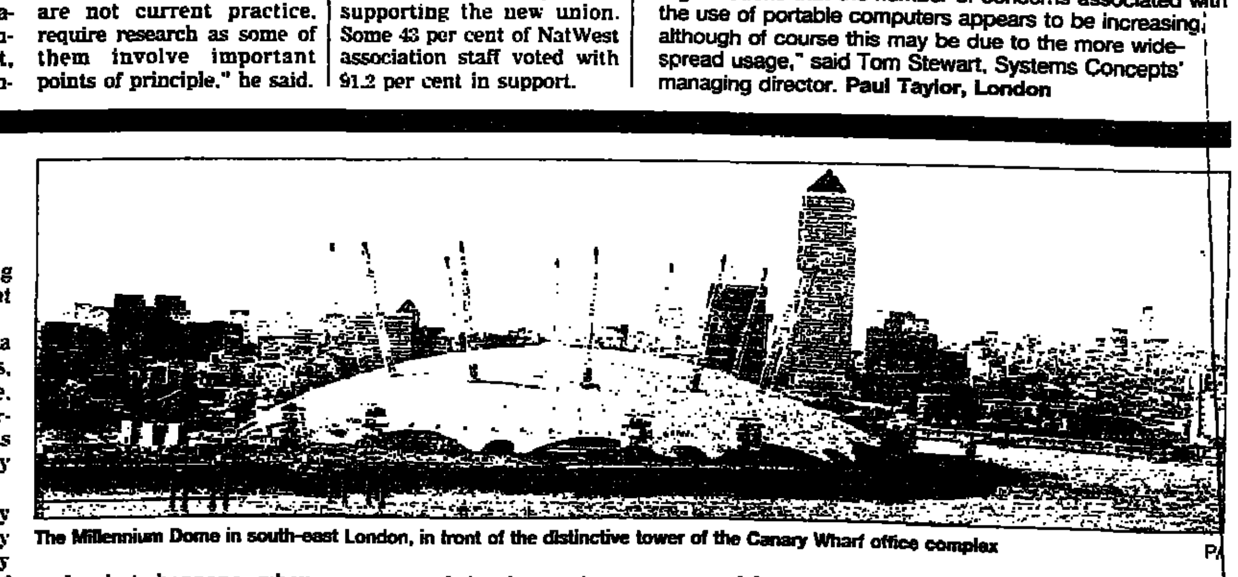
Tony Blair, the prime minister, says the dome is recognised as the centrepiece of the celebrations across the world precisely because the millennium, theoretically, begins on January 1 at 00h00 GMT – the point from which time in all zones around the world is calculated. "The eyes of the world will be upon us," he said, launching the project in June 1997.

The scheme, partly funded by a £399m grant from the UK National Lottery, is possibly the biggest millennium project in the world. The perimeter of the dome, which covers 80,000 sq m, is more than a kilometre long and takes 15 minutes to walk around. It is covered by a translucent roof held in place by a cobweb of steel cables.

It houses a central performance area where the millennium night celebrations will take place. It is here that the public will be treated to the Millennium Show – a 20-minute performance staged three times a day – once the doors open to the public for the year-long exhibition that will begin at midday on January 1.

Around this central area there are 14 themed zones, including the Global Zone, sponsored by British Airways and BAA, the airports operator, and the Mobility Zone, sponsored by Ford.

The Body Zone, backed by Boots, the retail pharmacy chain, will be dominated by a giant sculpture of entwined male and female forms. Visitors will enter at the hip of the body sculpture, travel by escalator up an arm to the torso, step out to a bridge across two legs and exit from an escalator down a shin. Inside, visitors will be told about the functions of the human body, how it grows, repairs itself and what happens when things go wrong.



The Millennium Dome in south-east London, in front of the distinctive tower of the Canary Wharf office complex PA

The exhibition aims to attract 12m visitors over the year. Then the dome will be sold.

The government recently invited more than 1,000 companies around the world to bid for it. Lord Falconer, the so-called dome minister, said the site could be used for a commercial development, a tourist attraction or more than one function.

The dome represents a massive investment and it has met widespread criticism. One poll found only 8 per cent of Britons thought it appropriate while 62 per cent said they would prefer the money to be spent on the state health service. Mr Blair announced last week, in an attempt to win over the hearts of the public, that 1m children from 10,000 schools would be able to visit the dome free.

But this did not prevent an outcry when it was subsequently revealed that the dome would be one of Britain's most expensive tourist attractions, with adults paying £20 each for full-price tickets.

Dr George Carey, the head of the Protestant Church of England, and Cardinal Basil Hume, leader of Roman Catholics in England and Wales, are threatening to boycott the opening on December 31 unless it includes a stronger Christian element.

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The explosion is seve

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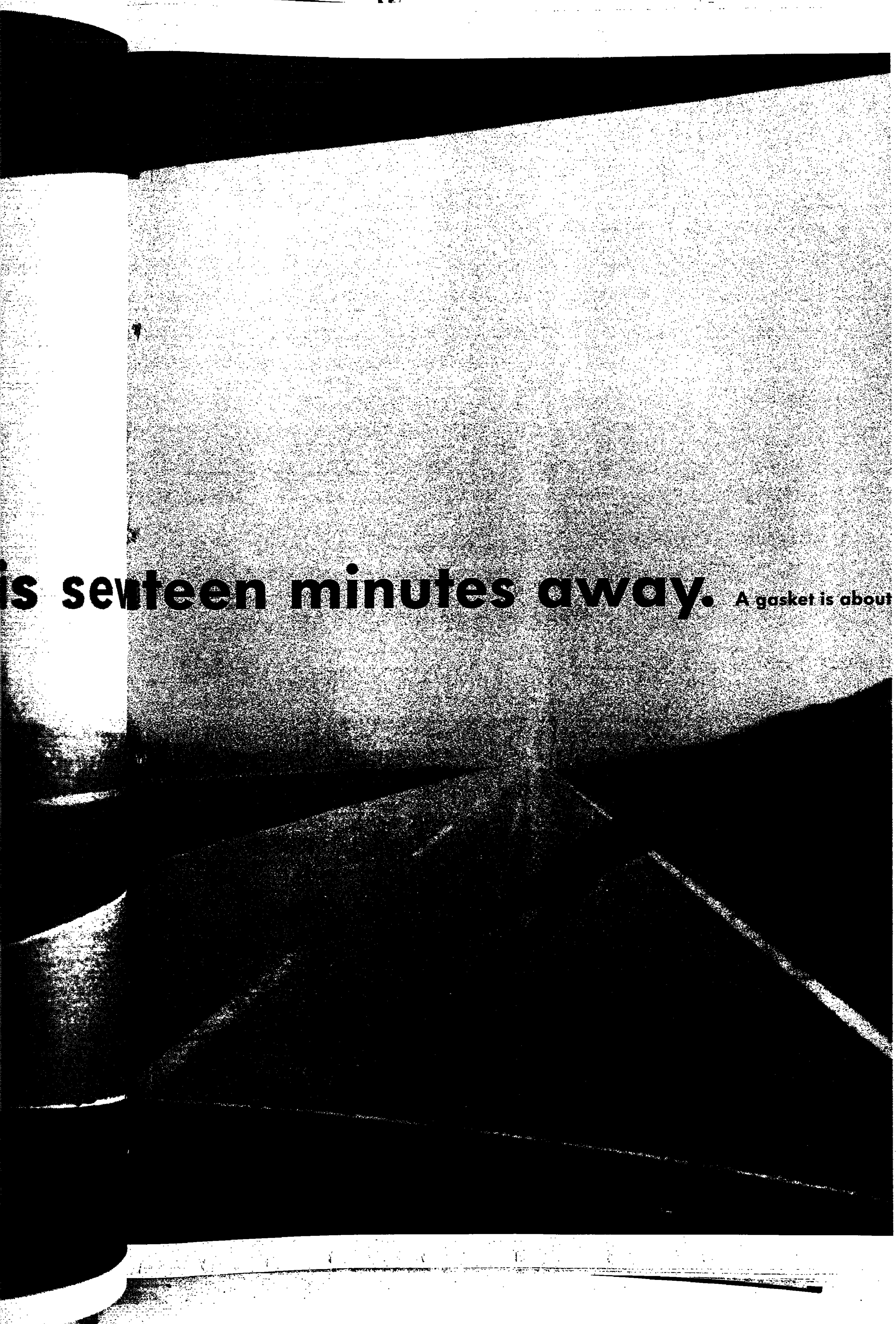

to blow. Now imagine. A chip in the engine alerts an electronic service that the driver signed up for when he bought the car. This service locates the nearest garage, books an appointment, provides directions to the driver, pushes his next business meeting back an hour and arranges for a rental car to meet him at the garage. But that's only the beginning. Meanwhile, the car manufacturer is notified of the gasket problem (it isn't the first time!) and while the auto giant considers retooling the line, the service drafts a recall notice and engages the help of a PR firm. Wow. A lot is happening here. Car, gas station, rental-car company, auto giant are all seamlessly linked to the Internet. Not as a collection of web-sites or in a battle for eyeballs. But as a catalyst for the service-based economy. The next chapter of the Internet is about to be written. And it will have nothing to do with you working the Web. Instead, the Internet will work for you. www.hp.com/e-services

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BILL GATES ON BUSINESS

Microsoft bets future on the net

But the company famous for Windows may face an era in which products matter less than services, says Louise Kehoe

Microsoft's headquarters in Redmond, Washington, may be one of the few places where Monica Lewinsky has – at least jokingly – been called a heroine. For a long time, the former White House intern helped to keep criticism of the embattled company and its chairman, Bill Gates, off the front pages of magazines and newspapers.

None the less, Microsoft has been subjected to a barrage of negative news ever since the US Justice Department filed its anti-trust case against the company last year.

Now, like President Bill Clinton, Mr Gates is trying to regain control of the agenda – both in the press and in his organisation. As both Bills are discovering, this is not easy. At every turn, their legal difficulties are raised. Moreover, while President Clinton's impeachment trial is over, the Microsoft trial will soon resume, after a recess of several weeks.

It may be a coincidence that Mr Gates's new book *Business @ the Speed of Thought* has been published during the trial recess. However, it is probably not by chance that Microsoft chose to launch a new version of its controversial internet browser software during a break in daily courtroom arguments.

These events were more than mere distractions for the press. Mr Gates was laying the foundations for a new phase in Microsoft's growth. Already the world's largest software company, it has grand ambitions to become very much bigger.

The most striking aspect of Microsoft's strategy is its breadth. "The mission I see Microsoft focused on today... is taking the internet, combining it with great software and turning that into the most powerful tool of all time, the most empowering tool that people ever have had. The most revolutionary tool that will change how we do business, how we learn, how we entertain ourselves and how we communicate," Mr Gates said last week as he introduced the new browser software.

Mr Gates spoke of the "web lifestyle" – a term he has coined to describe ubiquitous use of the internet for daily activities, from checking stock prices to buying groceries – and the "web workstyle" which puts the internet at the centre of business communications and collaboration, enabling retailers to deal directly with their customers and all businesses to interact with their suppliers and customers.

Microsoft is "betting its future on the web lifestyle and web workstyle becoming mainstream", Mr Gates said. With internet use growing apace – there are an estimated 163m users today, up from 4m five years ago – this sounds like a safe bet. But the issue, he said, was to get all these internet users, and more, to make wider use of the new medium. Most people use the internet only occasionally. Only about 30 per cent have "really embraced" it.

Most people use the internet only occasionally. Only about 30 per cent have 'really embraced' it

The challenge facing Microsoft is to ensure that its software remains vital to PC users as they embrace the internet. Internet standards, which can be applied on computers of any type, running any operating system, threaten to make Microsoft's Windows market advantages irrelevant.

Even as Microsoft moves to integrate desktop applications – ranging from word processing and spreadsheets to games and encyclopedias – more tightly with internet services, the role of Windows becomes less apparent to the user.

As Mr Gates explains it, when a PC user searches for a document, he or she should not have to worry about whether the required information is stored on a PC disk drive or on an internet web site. It should all look the same.

That is all well and good, but it places the internet browser interface at the centre of the PC user's experience, potentially displacing the Windows operating system. Mr Gates says Microsoft has extended internet standards to incorporate the "richness" found in Windows and Windows applications. Critics charge that the company has attempted to hijack the internet, tying users to the Windows operating system.

There are similar issues when it comes to servers, the more powerful computers that link corporate networks or host internet web sites. In this arena, Microsoft is vying with several competitors to make its Windows NT software the de facto standard.

But the battle, often depicted as Unix versus Windows NT, is moving into new territory. The tough issue facing businesses is how to mix older "legacy" systems, on which standard business databases have been built, with today's internet or "web style" applications.

One of Microsoft's most potent challengers in this segment is Sun Microsystems with its Java technologies. Specifically, Sun is promoting Enterprise JavaBeans, a new approach to business software development that makes it easier to create the "glue" to link old and new information systems applications. Like all elements of Sun's Java, the JavaBeans approach is not linked to any particular operating system.

The biggest risk for Microsoft is that computer operating systems become a commodity product. There is evidence that this could happen. Linux, an increasingly popular server operating system, is available free of charge. Companies that distribute the software draw their profits from support services.

Ironically, even as Mr Gates bets his company's future on the internet, he may be hastening an era when products – including his own – become the adjunct to services; one of the few business segments in which Microsoft has deliberately limited its role.

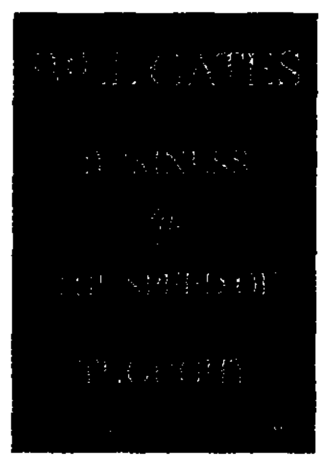
Yet any threat to Microsoft's future is "good news" in the short term. In its antitrust trial, the software company intends to prove that it faces numerous competitors that could soon wipe out its market dominance.

The truth is somewhere in between. With millions of Windows PCs in use worldwide, Microsoft's continued dominance is already assured during the next few years. Yet Microsoft must mix the agility of a start-up with the resources of the world's most highly valued company if it is to remain a world leader.

Mr Gates stresses that Microsoft cannot bring about the web lifestyle on its own. Just as it took many companies to create the personal computer industry, "with the internet, it's an even broader set of companies", he says. "It's fantastic to see the rate of new start-ups, the investments being made, because we need all of that energy to make this a reality."

What is never quite clear, these days, is whether he is addressing Microsoft's customers, partners and shareholders – or the federal judge hearing Microsoft's antitrust case in Washington.

An audio version of the book on four cassettes is available from the Talking Book Shop, price £10.99 inc UK p&p. Tel: 0171-491 4117 (+44171 491 4117)



Business @ the Speed of Thought: Using a Digital Nervous System
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Other extracts in the series appeared on March 18 (Speed gives life to the digital nervous system), March 19 (The day Microsoft 'got' the internet), March 20 (Home is where the internet is) and March 22 (Coping with an era of change). An interview with Bill Gates by Louise Kehoe appeared on March 17.

TECHNOLOGY BOTTLING

Cracks in a brewers' glass ceiling

Producers hope that beer drinkers will find plastic is fantastic, writes **John Nutting**

Smashing idea: scenes like this one may be less common if the brewing industry decides to switch to plastic bottles — Kobal

If you have ever seen someone hit on the head with a glass beer bottle by an overexcited reveller in a bar, you will appreciate the virtues of a switch to lightweight plastic containers.

The traditional glass beer bottle is under threat as technological advances open the way for a wide range of plastic beer bottles, which brewers hope will attract consumers' attention in a flat, but increasingly crowded, market.

This month, Anheuser-Busch, brewer of Budweiser in America, the world's most popular brand, is to test-launch its latest 16oz plastic bottle in Phoenix, Arizona, and Dallas, Texas, as part of its programme to attract new drinkers.

It is just one example of the flurry of interest worldwide in the use of plastics for beer.

"The question is not so much 'why?' but 'why now'," says Francisco Serrano, marketing manager for Constar, one of the companies developing the new bottles. "For years, the brewing industry has been looking for a plastic bottle for beer. It is only in the past two years that the technology has been catching up. And brewers have been looking for something to revitalise the market."

This is a marketing battle in which brewers seem prepared to accept higher initial costs if they can gain an edge with consumers.

The average 16oz plastic bottle costs about 13 cents in the US, compared with 10 cents for the glass equivalent. Costs will come down as volumes rise, however, and with plastic around half the weight of glass, shipping costs will also fall.

The problem for brewers is that the PET (polyethylene tetraphthalate) bottles used widely for soft drinks do not offer a long enough shelf life for beer. PET works as a barrier for no more than a few weeks, compared with at least eight months for canned and glass-bottled beers. As oxygen is absorbed from the atmosphere, the beer taste suffers, while the carbon dioxide that gives the beer its fizz leaks out.

For this reason, the first experiments with the use of smaller plastic bottles was confined to sporting events, where their use was limited to a short period. Large 2 litre PET bottles have been used, but only for small quantities of non-premium beers.

The technological breakthroughs came in 1997. These use new materials such as PEN (polyethylene napthalate), a more sophisticated type of PET, as well as multilayer plastics with barriers, caps with oxygen-scavenging chemicals and external spray coatings.

In the UK, a bottle developed by American National Can, the US subsidiary of Pechiney, the French packaging company, was used by Bass Brewers in an experiment with multilayer barrier materials for its plastics bottles. It is made from a layer of EVOH (ethylene vinyl alcohol), which acts as an oxygen barrier, sandwiched between two layers of PET.

Oxygen that gets into the beer during brewing will be extracted, improving flavour over time

In the US, Anheuser-Busch's first foray into plastic bottles last year used PEN, which costs about 10 times as much as PET. The 16oz bottle, made by Constar, a subsidiary of Crown Cork & Seal, could also withstand pasteurisation, an important part of the brewing process for many producers, and had an oxygen-scavenging cap.

Miller Brewing, second-biggest US brewer, is the latest to experiment with plastic. It claims its bottle matches the shelf life of glass and aluminium cans at a competitive price. Its 20oz and 1 litre beer bottles are made from a five-layer material with two barrier layers sandwiched in PET, made by Continental PET Technologies, a division of Owens Illinois.

However, multilayer bottles are falling foul of municipal authorities for environmental reasons – recycling is virtually impossible because it is difficult to separate the layers. To counter this, an alternative technique is to use a spray-on external coating for the PET plastic bottle. Constar has developed a process – using an oxygen-scavenging epoxy amine chemical – called Starshield, which has been used for small PET bottles in Saudi Arabia. The coating, which carries all the bottle's decoration, can be separated relatively easily from the main PET layer.

Concerns about recyclability at this early stage in the development of plastics beer bottles are, however, low on the list of priorities. More significant is that these new bottles could enable brewers to offer beers that improve with age.

Anheuser-Busch, in its US test launch this month, is expected to use a PET bottle with Amosorb 3000, an oxygen-scavenger, in the walls, in addition to an oxygen-scavenging sealant in the crown. In theory, any oxygen that gets into the beer during the brewing process will be extracted, improving the flavour over time.

But what do consumers think of the new plastic bottles? In test marketing, people have initially declined to drink beer from plastic. But once they have sampled the beers they have changed their minds.

Moreover, Anheuser-Busch has found greater resistance to the concept of plastic-bottled beer among older drinkers. Younger consumers, with few, if any, preconceptions about glass bottled beers, accepted them more readily.

John Nutting is editor of The Canmaker magazine

ENVIRONMENT VIEWPOINT TRAVIS ENGEN

Thirsty world must tap market forces

Water needs to be treated as a tradeable asset, rather than a limitless resource, to prevent a catastrophe

Our planet faces a catastrophe if we do not satisfy the growing thirst of its people and the agriculture that sustains them.

Yesterday was World Day for Water, and a reminder that we must think of it in a new way: as an asset, rather than a limitless resource. Water may be everywhere, but to drink it or farm with it, you should expect to pay a fair price.

The situation is critical and needs immediate action. One-fifth of the world's population has no access to safe drinking water and half of all people have poor water sanitation. Global water shortages have been with us for some time. China's Yellow River, for example, began drying up in 1972 due to poor irrigation practices, increased usage and climate variations.

In the arid south-western US, water streaming down the Colorado River rarely reaches the Pacific Ocean – prompting debate about rights to the moving water. Likewise, water from the Nile, a river serving 157m people, barely reaches the Mediterranean.

And the situation will worsen. By 2025, the global population is projected to increase to 8.3bn, from 5.7bn in 1995. As our population grows, so does our water consumption – we have already seen increases during the past 95 years that were twice as fast as population growth.

Industrial water use is also projected to double by 2025, and without action to clean and recycle this resource, water wastage could quadruple. As a result, two-thirds of the world's population could face water shortages and/or pollution of its drinking water.

Everyone, worldwide, must immediately rethink how we manage and use water on a daily basis. The way to start is to subject this important resource to the discipline of the marketplace. Until recently, water has not been given a true market value in most of the world. It has been subsidised heavily for farming in most areas.

Just like irrigators in Mexico, Indonesia, Pakistan and Egypt, farmers in desert regions of California received subsidised water at unrealistically low prices for decades. A small number of these farmers have had control of 80 per cent of the state's water. Fortunately, that is now changing. The largest water agency in the US has begun trading water rights electronically, creating the first true market for the resource.

Such changes must be repeated globally. By using market pressures, we can create powerful disincentives to reduce wasteful distribution and use. Water should be treated as if it were economic capital, and accurate monitoring and data collection should tie water strategy to economic planning.

Eliminating the implicit agricultural subsidy of arbitrarily low prices would create incentives to repair leaky distribution systems and use better irrigation techniques as water flowed to its most productive and necessary uses. Rational water allocation can also encourage investment in strategies to build capabilities for a sustainable water future.

The emergence of water markets and electronic trading is not just good business practice. "Green" economists support them as necessary measures to conserve and protect invaluable water resources.

It is time for the world's political, scientific and business leaders not only to take notice of this pending catastrophe, but to stand up and take action. These leaders must begin to regard water as a limited resource and a saleable commodity in order to ensure its future.

Global leaders should ponder whether water, in its scarcity, will become a point of contention. Perhaps when the United Nations recently identified nearly 100 areas where water-related friction has already become an issue, it foresaw a water crisis that could some day parallel the historical hostilities over oil in the Middle East. If we fail to change now, future generations will suffer the terrible consequences of our waste and folly.

The writer is chairman and chief executive of ITT Industries, the world's largest producer of pumps.

TIM JACKSON
ON THE WEB

Freedom from the fax

An innovative service which converts faxes into e-mails has attracted more than 100,000 customers in less than two months

Free is a magic word in the internet business.

This point – that the high speed at which word of mouth carries ideas around the web helps companies offering free products to grow impressively – has been made several times before in this column. But this week it can be applied to *eFax.com*, a service that ought to be useful to practically any internet user.

The starting point of eFax is that most people who rely on e-mail find it inconvenient to deal with faxes. The problem is acute when you are travelling, and faxes have to be forwarded to you, raising costs and reducing image quality.

That is why, more than two years ago, a company called JFax based in Menlo Park started offering people a "personal fax number", in the city of their choice. Instead of arriving at a physical fax machine, however, incoming messages were turned into graphics files and forwarded to an e-mail address.

The result: a "unified in-box", where you can receive faxes together with e-mails, and also voicemails. JFax's price for this service was a modest $12.50 a month. The company has recently struck a number of marketing deals with big internet players.

But why pay good money for such a service? A company in California called JetFax, which until late last year specialised in making multi-function devices that fax, copy and do other things, came up with an alternative business model: offer the service for nothing, but show the customer a small advertisement before viewing each fax. It decided to call the service *eFax.com*, and changed the company's name to match its new internet service.

The system works neatly. You download an 187K software package from *eFax.com*'s web site, and the company allocates you a fax number in the midwestern US after you have filled in a registration form. When you view an incoming fax, an image of an airmail envelope is superimposed on it. In the place where the address would normally be, you see details of the sender, date and number of pages.

Where the stamp would be is a group of four banner advertisements. When the user clicks on one, the package starts up a web browser and opens the advertiser's web page.

The costs are simple: *eFax.com* has to maintain a bank of modems somewhere in America, and also one direct-dial number for each customer. But the marginal cost of forwarding an e-mail is close to zero.

The company has also invented a new form of virus marketing. It offers a service called HotSend that allows *eFax.com* users to forward faxes on, by e-mail, to people who don't use *eFax.com*.

The service was launched on February 8. Since then, more than 100,000 people have signed up for it. It has also received a complaint from the similarly named eFax, Inc of California, which alleges that *eFax.com* infringes its trademark.

The new service did wonders for the company's share price, which had fallen below $2 during the past year. But the announcement that *eFax.com* had struck a deal with XOOM, a community web site, sent it skywards.

Although the price has fallen sharply from a peak of $33 a share reached last week, its Friday close of $17, valuing the business at $200m (£125m), shows how investors reward companies for doing something new on the internet.

Whether *eFax.com* can turn this mini-bubble into some long-term value depends on two things: the ratio of incoming fax volume to the number of fax numbers allocated; and the value of each advertising impression.

The fax volume matters because *eFax.com* spends money when it ties up a fax number for a customer. If many users have numbers allocated to them but do not receive faxes regularly, that will increase costs. Number of customers is not as important as the 'stickiness' of each customer.

The second point is about advertising targeting. To maximise the value of the advertising opportunity, *eFax.com* needs to know a little more about you than your e-mail address. More targeted advertising can achieve much higher prices. In the short term, my concern is that clickthrough rates on the advertisements will be very low.

But there are other possible revenue streams: sending faxes (a straightforward phone service); toll-free fax numbers, which can be sold off for higher prices; and in some countries, like the UK, revenue from incoming calls.

It is true that the incoming call revenue for a fax service is unlikely to be so lucrative as the revenue to free internet service providers like Dixons' FreeServe, but the fax service has some intriguing possibilities in Europe. In the UK, the confusion over call charges is now so great that a local imitator could probably provide national-rate numbers, to which people sending faxes have to pay more than a local call but less than a premium-rate call. This would sharply increase revenue.

Today, the message is simple: another free service, and a useful one.

tim.jackson@pobox.com

MANAGEMENT

PEOPLE ON THE MOVE

Goldman Sachs hires Andrews as investor relations chief

Goldman Sachs has taken another crucial step in preparing itself for life as a public company. The investment banking partnership, which is due to launch its initial public offering in the next few months, has hired **John Andrews** as director of investor relations from arch-rival Morgan Stanley Dean Witter.

Goldman will be hoping that Andrews will have the same salutary effect on its share price that he has had on Morgan Stanley's – it has more than doubled in the past six months, admittedly after a slump during last autumn's market turmoil.

Andrews had run Morgan Stanley's investor relations since 1997, after joining the department in 1995. He joined Morgan Stanley in 1986 and worked in corporate treasury in London and Tokyo.

Because of his previous role Andrews is already well known in the New York analysts' community. But the same cannot be said of his new employer. Analysts frequently complain that the famously secretive Goldman never talks to them. All that may be about to change.
Tracy Corrigan, New York

Fahmi resigns from Sulzer

Fritz Fahmi, chief executive of Sulzer, has resigned after accepting defeat in his 11-year-old attempt to resuscitate one of the grand old names of Swiss engineering. His departure has left a management vacuum at the top of the 165-year-old company which has led to speculation that it could be vulnerable to an unwelcome takeover bid.

Fahmi, 54, who has also resigned as chairman of Sulzer Medica, the group's quoted medical technology arm, quit because he had not met his targets. Sulzer, founded in 1834 in Winterthur, used to be Switzerland's biggest engineering company and much admired for its products, ranging from ships' engines to textile machinery.

However, its technological excellence has never been matched by its financial performance. Sulzer's 1998 net income of SFr183m ($126.2m) was less than the SFr195m earned in 1995 and its return on equity of 7.6 per cent compares with 23.2 per cent at ABB, Switzerland's flagship engineering company.

Fahmi, a well-known Swiss pentathlon competitor who once worked on the Nasa space project, took over as chief executive in 1988 when the company was being pursued by two corporate predators – Werner Rey and Tito Tettamenti. He slimmed down the company and jettisoned many traditional businesses such as locomotive building and marine diesel engines. But the turnaround has taken much longer than expected and the group's share price has substantially underperformed the stock market.

Pierre Borgeaud, 65, Sulzer's chairman and a former chief executive, takes over as chief executive and has promised to find a successor within two years.

One possible internal candidate is **Fred Kindle**, 40, a former McKinsey management consultant, who has been promoted from running Sulzer Chemtech, a supplier of process technology for the chemical industry, to chief executive of the newly created Sulzer Industry. It will oversee Sulzer's four industrial businesses – Sulzer Roteq (pumps), Sulzer Winterthur (process engineering), Sulzer Rüti (textile machinery) and Sulzer Infra (engineering contracting).
William Hall, Zurich

Braathens breaks with tradition

Braathens, Norway's largest domestic airline, last week ended three generations of family management by appointing **Arne Jensen** as chief executive, replacing Erik Braathen.

Braathen, 43, leaves for personal reasons after 10 years of managing the company. Jensen, 44, will begin as soon as he is released from his current position as chief executive and editor in chief of Norwegian television company TV2.

A changeover in leadership had been expected since last spring, when Braathen approached Lars Christensen, Braathens' chairman, with plans to resign within a couple of years. Braathen took a final decision in October, which prompted the board to seek a replacement.

However, the move comes during a turbulent time for the company. It is expected to report a loss this quarter because of continued overcapacity in the Norwegian domestic market, after disappointing 1998 results. Larger than expected problems at the new international airport in Gardermoen, Norway, helped the fall from net profits of NKr205m to a NKr22m loss last year.

In addition, the company is involved in a dispute with the Norwegian finance ministry that could lead to it registering 20 of its 33 Norwegian aircraft in Sweden in order to save costs.

Braathens' decision to resign will have no effect on the 38 per cent share held by the Braathen family. The business was founded in 1946 by Ludvig Braathen.

KLM owns 30 per cent of the company, which was first listed on the Oslo stock exchange in 1994.
Valerie Sköld, Oslo

De Gier to advise UBS

Hans de Gier, who will retire in May as chief executive of Warburg Dillon Read, is to become a personal adviser on strategic issues to Marcel Ospel, chief executive of UBS, the investment bank's Swiss parent company.

De Gier, whose retirement was announced earlier this month, decided against accepting any other, more formal role with UBS. He has been one of Ospel's most loyal lieutenants, overseeing two successive integrations, first of Swiss Bank Corporation and S.G. Warburg, and then of SBC Warburg and Union Bank of Switzerland's investment banking operations.

Those two tasks delayed his long-standing desire to step back from investment banking. Although a supporter of UBS's plan to integrate WDR more closely with its asset management, private banking and Swiss retail operations, de Gier, 54, has decided to leave on what is likely to be a high note.

UBS is introducing quarterly reporting this year. Analysts believe that WDR's first-quarter profits may be sufficiently eye-catching to offset the impact of disappointing 1998 results, which mostly reflected old UBS's exposure to equity derivatives and Long-Term Capital Management.
Clay Harris, London

Persaud to State Street

Persaud: moving to State Street Corporation

Avinash Persaud, one of the best-known analysts in the currency markets, has moved to State Street Corporation as managing director and global head of research for the company's financial markets business.

He will head State Street's market research for distribution on Global Link, an internet platform designed to provide investment managers with portfolio-flow based analysis. State Street aims to use its position as one of the world's leading custody banks to develop its understanding of capital flows and their effect on currency movements.

Persaud was formerly head of currency research at J.P. Morgan in London, where he developed a number of innovative research tools including the Emu Calculator, a device for assessing the market's belief that a currency would join European economic and monetary union. Prior to this he was director of currency research for UBS.

He left J.P. Morgan in January this year to work for Putnam Investments, the giant Boston-based fund manager, but decided for personal reasons not to take up the position.
Alan Beattie, London

Duffy to head Mannesmann arm

Mannesmann, the German industrial group that is rapidly becoming one of Europe's leading telecommunications concerns, has appointed Tomas Duffy as president of its new Euro.map international joint venture with Olivetti of Italy.

Since 1995, Duffy, a graduate of the Royal Institute of Technology, has worked at Telia, the Swedish telecoms group. Most recently he was executive vice-president for business solutions. Amsterdam-based Euro.map is due to be launched shortly. It will offer cross-border services, particularly to multinational businesses, which use networks that have sprung up since the liberalisation of European telecoms markets.

Duffy is the second Telia executive to take a senior appointment at Mannesmann recently. Last November, Lars Berg, chief executive of the Swedish group, was given overall executive board responsibility for Mannesmann's telecoms activities.
Ralph Atkins, Bonn

Moving places

● Australian media company Publishing & Broadcasting announced yesterday that **Colin Morrison**, chief executive of magazine arm Australian Consolidated Press, will leave the job next month. Morrison is moving to London to become managing director of the international operations of Germany's Axel Springer. **John Alexander**, currently the group publisher of ACP's specialist magazines and former editor-in-chief of the Fairfax group, will succeed Morrison.

● Advanstar Communications has appointed **Neil Jones** to the new position of European managing director. Jones joined Advanstar last March as European business development director.

● Trimble has announced that **Patrick Hehir**, 37, has joined the company as senior vice-president and chief manufacturing officer. Hehir joins Trimble from Donovan International where he held several positions during his eight-year tenure.

● **Osamu Inoue** has been appointed managing director of NTT Europe, part of the world's largest telecommunications organisation, NTT Group. Inoue joined NTT in 1972 and in 1997 he became vice-president, Overseas Carrier Business.

● Baring Private Equity Partners has announced that **Varel Freeman** has joined as senior partner Latin America. Freeman joins from Chase Capital Partners Latin America.

● The Dialog Corporation has announced that **Richard Swank** is to join the board as a non-executive director. Swank joined the company in November 1997 as an adviser to assist the executive management team in implementing the integration strategy following the purchase of Knight-Ridder Information. Since then he has acted as non-executive chairman of Dialog's North American businesses.

● **Ian Lansdown**, a director of Catalyst Investment Managers in Sydney, has joined PPM Ventures in Hong Kong.

● EDS Europe, Middle East and Africa has appointed **Michael Nebauer** as chief financial officer, a position that also puts Nebauer on the EMEA executive board. He joins from Eastman Kodak where he was also chief financial officer for the EMEA region.

● **Francois Feldman**, a main board director of Deltron, is now president of EUROINDustrie, Deltron's wholly owned French subsidiary. In this capacity he will also undertake a wider role within Deltron, concentrating on its continued European development. The company has also announced the appointment of a new managing director of EUROINDustrie. **Philippe Guillame**, 40, was previously at Eurodis Electronics Group where he was European marketing director for electromagnetic and passive components.

● ACNielsen has appointed **Neil Preddy** as vice-president, retail measurement services, Europe. Preddy will take over responsibility for the European marketing of ACNielsen's largest service, Retail Measurement. Preddy was previously marketing director for Central Europe.

● WestLB Global Derivatives and Fixed Income, the product group primarily responsible for the fixed income, repo and derivatives businesses of WestLB Group, has announced that **Sean Tully** is to join the group as head of the New York office, with effect from April 1. Tully was previously managing director at Citibank Global derivatives, New York.

● Iridium Communications Germany has appointed **Don Burns** as chief executive. Burns joins ICG after 26 years with Motorola.

● Réczicza Law Firm White & Case in Budapest has recruited from Baker & McKenzie two leading Hungarian capital markets lawyers, **Zsuzsanna Kovácś** and **Zsuzsanna Nagy**. Kovácś and Nagy have been involved in numerous domestic and international capital markets transactions, including the global offerings of MOL, the Hungarian oil and gas conglomerate.

● Joseph E. Seagram & Sons has appointed **Joseph Tripodi** chief marketing officer, The Seagram Spirits and Wine Group, with effect from April 5. Tripodi will be based in New York, and will report to Steven Kalagher, president and chief executive, The Seagram Spirits and Wine Group.

People on the Move is edited by Lisa Wood. Fax 001 44 171 873 3926

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From river view to cosmic void

William Packer reviews three figurative painters exhibiting in London

Figurative or representational painting takes many forms, from that based upon an exact observation of the visible world to the expressive response to what is seen on the one hand, and the formal manipulation of imagery on the other that may border on the abstract and symbolic. But there are no fixed categories, only the mixing of elements and shifting of emphases along a continuum. And if we nowadays see rather less of the more objective kind – the more objective and technical disciplines in our art schools having been abandoned over recent years in the name of personal expression – that is not to say that the more expressive and abstracted manifestations are without merit. We live, after all, in the age we live in.

And of course the precedents are impressive and convincing, as even the most sceptical anti-modernist, oohing and aahing at the Monets at the Royal Academy, must now concede. Moreover, those Water Lilies, along with the Fauvism of Derain and Matisse, the Cubism of Braque and Picasso, the Expressionism of Kirchner and Kandinsky, were well in hand all of 90 years ago. The nearest thing to a true Fauve we have working today is Lucy Jones (whose latest work is now at Flowers East), a point nicely reinforced by one of the subjects she has latterly made peculiarly her own, the reach of the Thames between Waterloo Bridge and Westminster, which so fascinated both Monet and Derain on their working visits to London all those years ago.

But differences of course there must be, and with Lucy Jones, the principal difference is of scale. She is clearly not trapped by the modern orthodoxy, that size of itself confers significance, and her latest Pembrokeshire landscapes show her to be no less confident and authoritative on the much smaller scale. But the Thames paintings are very large indeed, and she handles them with an admirable, appropriately expansive assurance, keeping the surface open, the paint uncongested, the drawing active and direct.

It is with the self-portraits, however, whether large or small, head alone or full-length, that she truly comes into her own. They have all the qualities of the landscapes and more, for with the drawing and the modelling of the form, the particular character of the subject admits of rather less approximation than a tree or hillside. And here, with no loss of the striking simplicity of image so typical of her work, there comes a more active intensity to the handling, and the drawing takes on a more positive flourish. The nose or lips established by the merest, confident flick of the brush, here and there. Just so. Unsentimental in their self-regard, the small heads especially are the best things in the show.

★

Across the road, Derek Hirst shows a body of new work prompted by a recent return to Andalucia, where he had lived and worked nearly 40 years ago. He speaks of his memories of the Spain he knew then, and the differences now, and of the underlying sense of the immemorial, eternal Spain, "that piece of Africa loosely welded to Europe" as Auden put it. But the work is not even loosely descriptive. Rather it seeks to embody in symbol that atavistic sense of the old Spain and the lively past. His paintings are very physical in their presence, exquisitely crafted objects, painted reliefs rather than paintings sealed off beyond the picture plane.

They fall into three kinds: a rounded arch, as it were a window in an ancient Moorish wall, through which we gaze into a cosmic void; a square frame in which certain figures, principally the triangle and the square, are either placed or painted – they may be cabalistic signs, relics set up for veneration, or the closed doors of a sanctuary; and simplest of all, a square relief, richly covered in gold leaf, scored and bored into the wood as to suggest the hinges, locks and abutments of actual sanctuary doors.

These last are remarkably powerful things – I say *things* rather than images, though their doors could never open. And their imaginative potency is all the stronger for their formal simplicity, with nothing more to penetrate the golden surface than a single vertical line and a couple of holes. These are most haunting to the imagination, and most beautiful.

Finally, a recommendation of the small show at Michael Hue-Williams, of recent landscapes by John Virtue – two huge (one a diptych) and some eight tiny canvases. Virtue has lately moved away from the near abstract-Expressionism of his large show, at Whitechapel and elsewhere, of 1995, with its Pollockian drips and runs across the surface. Though some of these surface indulgences remain, the move is much to his advantage, bringing him back to the spontaneous response to the actual landscape, and the real sense of place that so powerfully informed his earlier work. But the character of the work, which then was close to early Samuel Palmer and the Ancients, is closer now to the Constable of Dedham Vale, with the framing elms and poplars, and the distant church tower across the fields. Virtue, however, paints only in black and white and their consequent greys – it is odd how colourful black and white can be.

Lucy Jones – Landscapes and Self-Portraits: Derek Hirst – Return to Andalucia: Flowers East, 199 Richmond Road, London E8, until April 11. John Virtue – New Landscapes: Michael Hue-Williams Fine Art, 1st floor, 21 Cork Street, London W1, until April 24.

The nearest artist to a true Fauve working in Britain today: Lucy Jones's 'Crane 1998'

NEW YORK MUSICAL

'Bright Lights' feels the heat

When it opened last month, *Bright Lights Big City*, based on the 1984 novel by Jay McInerney, received some of the harshest notices for a new musical since last year's London production of *Rent*. This is useful to keep in mind, since most New York critics complained that *Brights Lights* was not, alas, up to the level of the latter work – as if Jonathan Larson's rock rendition of *La Bohème* were the only possible approach to the youth-centred musical; and that Michael Greif, director of both *Bright Lights* and *Rent*, should have known better than to place another rock-based show into New York Theatre Workshop – *Rent's* original home – so soon after the Puccini homage had found fortune.

Lost in all the criticism was the fact that *Bright Lights* brought the emergence of an exciting young performer, Patrick Wilson, and that the show's composer, Paul Scott Goodman, can be an occasionally deft writer of lyrics. If you think those are insufficient reasons for sending forth hosannas, you haven't seen many recent new New York musicals, which have been so lacklustre that some theatregoers are already writing off this season and waiting for autumn, when the new Stephen Sondheim production, *Wise Guys*, debuts on the same stage where *Bright Lights* has taken such a drubbing.

Wilson plays *Bright Lights'* 24-year-old protagonist, Jamie. Jamie slaves away as a fact-checker at a New Yorker-type magazine, but like many Manhattanites his day job is just a prelude to his true profession – in Jamie's case, literature. Instead of spending his evenings at home in front of the typewriter, however, Jamie dredges the city's clubs for drugs, usually in the company of his devilish best friend, Tad Allagash. While the boys' night crawling is the occasion for louche lyrics that might cause even Fatboy Slim, the current king of dance music, to blush, the netherworld is more often the backdrop for Jamie's deep loneliness. His wife has left him, his mother died when he was young, and the women's absence has left him emotionally adrift.

Wilson is especially touching during the show's early flashbacks to life with his mother, played by AnnMarie Milazzo. *While Milazzo's singing is lovely* and maternal but limited in expression, Wilson's voice is wide-ranging and dynamic. He can do with a song what only the greatest of live performers – Garland or Sinatra, Bette Midler or Tony Bennett – can: go emotionally from the highest high to the lowest low with barely a breath in between.

Wilson, who has all-American good looks but not boy-next-door blandness, also knows how to draw laughs, even when the material descends into banality. Luckily, he is spared the musical's worst moment: in a song called "I Wanna Have Sex Tonight," a steroid case asks a "Baywatch" bimbette: "Can I pick you up/ Can I lick you up/ Can I stick you up?" Ooh, baby.

Goodman's sung-through score, heavily reliant on rock ballads more reminiscent of the 1970s than the 1980s, at least has some Aerosmithy drive. And his songs contain a fine nastiness, particularly in a scene where Jamie is fed up with researching an article about Parisian politics. In a number that should be required cramming for all union flag wavers at the next cross-Channel football match, Jamie proclaims: "I hate the French, I hate them all/ *From* Toulouse Lafucking Trec to Charles de Gaulle."

If only Goodman's participation were confined to his authorship. Unfortunately, he is also onstage as a kind of troubadourial narrator, an annoyance for which not even the cleverest lyrics can compensate. It is fashionable now to *consign McInerney to the second-rate pile*. But the novelist, as far as I know, has never mistaken himself for an actor. One hopes that Goodman, who should not let *Bright Lights'* reception dispirit him, will keep McInerney's example in mind the next time he's tempted to front his own show.

Brendan Lemon

'Bright Lights Big City', New York Theatre Workshop, Off-Broadway

Exciting young performer: Patrick Wilson

Love sweeps the board

Nigel Andrews reports on the campest night in town, the Oscars

The soothsayers were confounded. Hollywood's wise men had pointed out that while "love" is a good word to have in a title the only Elizabethan playwright's name that could sell tickets is Marlowe, since audiences would assume they were in for a Raymond Chandler story.

All wrong. On Oscar night *Shakespeare In Love* advanced from critical and commercial success to Best Picture award, with six more statuettes going to Miramax's Tudor comedy, including Dame Judi Dench for Best Supporting Actress. "I should only get a *bit* of him!" pleaded Britain's vision in off-white, reminding us that the role of Queen Elizabeth lasts only eight minutes. (Just take the award, dear.)

Shakespeare In Love also swept up Best Original Screenplay, clearing an aisle for the unlikely partnership of Tom Stoppard and the ex-scenarist of *Waterworld*. Best of all, Gwyneth Paltrow burst into tears on accepting her *Shakespeare* Best Actress Oscar, proving that you can be an actress and an actress's daughter *(Blythe Danner) and still not* know how to fake self-control on a big night.

Astonishingly, in a matchplay event billed as "Elizabethan England versus World War Two", with the WW2 team containing two Americans and one Italian, the main war honours were heaped on the man who couldn't speak English. Bounding up to the Best Actor platform, Roberto *Life Is Beautiful* Benigni delivered, or more accurately *shouted*, these words. *"Eet ees grate* onner – Oh *thenghkyoo*!". And more like that, or roughly like that. I didn't take notes, being too busy waiting for him to lie on the floor and clutch the presenter's trousers as he had at Cannes, a task made harder here by the presenter being Sophia Loren not Martin Scorsese. *(Life Is Beautiful* also won Best Foreign Film.)

For *Saving Private Ryan* Steven Spielberg graciously accepted a Best Director Oscar uncoupled from Best Picture. This was a stroke of taste from the Academy. While nothing *surpassed Spielberg's direction of Ryan's* blistering first 25 minutes – Omaha Beach as it actually was or surely close – the rest of *Ryan* was a *pot au feu* of the good and bad, the stirring and the sententious-sentimental.

> **Gwyneth Paltrow burst into tears, proving that you can be an actress and still not know how to fake self-control on the big night**

The Thin Red Line and *Elizabeth*, stylistically the boldest Oscar favourites, were predictably ignored. The Academy likes either to feel good or to feel bad in ways that are simple, didactic, emotional. The Malick and *Kapoor films were too weird, too* imaginative, too Brechtian. They needed another year, another millennium, another Academy.

Feeling bad is what everyone expected when Elia Kazan accepted his Lifetime Achievement Oscar. The poor name-namer, nearly 90, ghosted onto the stage and gave a thin neo-realist smile. Most of the hall obliged with a standing ovation. This man had after all directed *A Streetcar Named Desire* and *On The Waterfront*. But stubborn centre-leftists kept their seats, including Nick Nolte and Ed Harris, passed over elsewhere in the evening for Best Actor *(Affliction)* and Best Supporting Actor *(The Truman Show)* respectively.

Whoopi Goldberg compered as best she could, though everyone missed Billy Crystal. She quipped that Paltrow's gender-swapping *Shakespeare In Love* role was the first example of a woman reducing her breast size to gain a role. The audience laughed, though of course it isn't true. Mother Showbiz regularly climbs into male drag to do so.

Goldberg apart, it is still a man's world out there, as witness the gender of the special *honorees (Kazan and Norman* Jewison), the male predominance in art-and-craft categories and the general sense of a stag party in which women are allowed in so long as they sport million-dollar designer-label dresses.

At least this boys' club gave a Best Adapted Screenplay Oscar to Briton Bill Condon for *Gods And Monsters*, the truth-based tale of gay Anglo-Hollywood director James Whale. Whale would have had a namesake of a *time here. Oscar night is still the* campiest show in town.

INTERNATIONAL Arts Guide

AMSTERDAM

DANCE

Dutch National Ballet: programme combining the Dutch premiere of Acts of Light by Martha Graham, with the world premiere of Krzysztof Pastor's Bitter Sweet, and Balanchine's Symphony in C; Mar 24, 26, 27

OPERA

Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Die Zauberflöte: by Mozart. Conducted by Hartmut Haenchen in a revival of Pierre Audi's staging co-directed by Saskia Boddeke; Mar 23, 25, 28

BERLIN

DANCE

Deutsche Oper
Tel: 49-30-34384-01
Cinderella: staging by Roberto de Oliveira. Kevin McCutcheon conducts Prokofiev's score; Mar 26

OPERA

Deutsche Oper
Tel: 49-30-34384-01
● Aida: by Verdi. Conducted by Lawrence Foster in a staging by Götz Friedrich; Mar 27
● Der Fliegende Holländer: by Wagner. Conducted by Rudolf Piehlmayer in a staging by Götz Friedrich; Mar 25
● Eugene Onegin: by Tchaikovsky. Conducted by Jiří Kout *in a staging by* Go<umalut>tz Friedrich; Mar 28

Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
Tannhäuser: by Wagner. Conducted by Daniel Barenboim in a staging by Harry Kupfer; Mar 28

BOLOGNA

OPERA

Teatro Communale
Tel: 39-51-529999
La Cena delle Beffe: by Giordano. Conducted by Bruno Bartoletti in a revival of Liliana Cavani's staging, first seen in Zurich four years ago. The cast is led by Daniela Dessì and Alberto Cupido; Mar 23, 25, 27, 28

CHICAGO

CONCERT

Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra and Chorus: conducted by Pierre Boulez; Mar 24, 26

DRESDEN

OPERA

Semper Oper
Tel: 49-351-48420
Ariadne auf Naxos: by R. Strauss. Conducted by Colin Davis *in a new staging by* Marco Arturo Marelli. Cast includes Susan Anthony and Jon Villars; Mar 25, 27

LONDON

CONCERTS

Royal Festival Hall
Tel: 44-171-960 4242
● BBC Symphony Orchestra: conducted by Andrew Davis in works by Mozart and Strauss, with piano soloist Imogen Cooper; Mar 25
● London Philharmonic Orchestra: conducted by Kurt Masur in works by Strauss and Bruckner, with soprano Felicity Lott; Mar 27
● Philharmonia Orchestra: conducted by David Zinman in works by Mendelssohn, Mozart, Daugherty and Tchaikovsky, with violin soloist Joshua Bell; Mar 23

EXHIBITION

National Gallery
Tel: 44-171-839 3321
Rogier van der Weyden: the 20 surviving paintings attributed to the 15th century Netherlandish artist are mostly too fragile to travel. The National Gallery has five, and these are supplemented by two from the Gulbenkian in Lisbon and two from the Getty in California for this show, which celebrates the 600th anniversary of his birth.; to Jul 4

OPERA

English National Opera, London Coliseum
Tel: 44-171-632 8300
Mefistofele: by Boito. Conducted by Oliver von Dohnányi *in a new* staging by Ian Judge; Mar 24, 26

MUNICH

CONCERTS

Philharmonie Gasteig
Tel: 49-89-5481 8181
● Bavarian Radio Symphony Orchestra: conducted by Lorin Maazel in works by R. Strauss; Mar 25, 26
● Munich Philharmonic Orchestra: conducted by James Levine in works by Mozart, Haydn, Berlioz and Ravel. With soprano Cecilia Bartoli; Mar 23

NEW YORK

CONCERTS

Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: conducted by Yuri Temirkanov in works by Stravinsky, with violin soloist Hilary Hahn; Mar 23

Carnegie Hall
Tel: 1-212-247 7800
www.carnegiehall.org
National Symphony Orchestra: conducted by Leonard Slatkin in the world premiere of John Corigliano's A Dylan Thomas Trilogy. With the Choral Arts Society of Washington and baritone Hakan Hagegard; Mar 26

EXHIBITION

Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Dosso Dossi, Court Painter in Renaissance Ferrara: Dosso Dossi was the last of the Ferrarese painters, much influenced by Giorgione and Titian. This exhibition includes rarely lent masterpieces from the Borghese Gallery in Rome and other European collections; to Mar 28

OPERA

Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
The Queen of Spades: by Tchaikovsky. Conducted by Valery Gergiev in a revival of Elijah Moshinsky's staging, designed by Mark Thompson. The cast is led by Plácido Domingo (replaced by Yuri Marusin on Apr 3), Galina Gorchakova and Olga Borodina; Mar 26

New York City Opera, New York State Theater
Tel: 1-212-870 5570
www.nycopera.com
Lizzie Borden: by Jack Beeson. New production conducted by George Manahan in a staging by Rhoda Levine, with Phyllis Pancella in the title role; Mar 24

PARIS

OPERA

Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
The Magic Flute: by Mozart. Conducted by Friedemann Layer in a staging by Robert Wilson; Mar 23, 24, 25

ROTTERDAM

EXHIBITION

Kunsthal
Tel: 31-10-440 0300
Helmut Newton/Alice Springs: Us and Them. Retrospective of the fashion and portrait photographer, whose work is shown alongside that of his wife, Alice Springs (the pseudonym of June Browne). The show comprises 120 works in all, and is mounted as a celebration of their 50th wedding anniversary; to May 9

SAN FRANCISCO

CONCERT

Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony and Chorus: conducted by Roberto Abbado in works by Bloch and Rossini; Mar 24, 25, 27, 28

THE HAGUE

EXHIBITION

Gemeentemuseum
Tel: 31-70-3388 1111
Vionnet: designs and prints by Madeleine Vionnet. One of the most important couturiers of the 20th century, whose moulage cutting technique strongly influenced the fashions of the period 1920-1940. to Jun 6

TOKYO

CONCERTS

Suntory Hall
Tel: 81-3-3584 9999
● Tokyo Symphony: conducted by Kazuyoshi Akiyama in works by Haydn and Mahler; Mar 26
● Yomiuri Nippon Symphony Orchestra: conducted by Tadaaki Otaka in works by Sibelius; Mar 25

VIENNA

OPERA

Wiener Staatsoper
Tel: 43-1-51444
Cavalleria Rusticana: by Mascagni/Pagliacci by Leoncavallo. Simone Young conducts a staging by Jean-Pierre Ponnelle; Mar 24, 26

TV AND RADIO

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BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

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Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:** 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

PETER MARTIN

Wizards unmasked

Beware the incantations of investment bankers. There is no magic potion for financial success

"Hush, my dear," said Oz. "Don't speak so loud, or you will be overheard – and I should be ruined. I'm supposed to be a Great Wizard." "And aren't you?" Dorothy asked. "Not a bit of it, my dear; I'm just a common man." "You're more than that," said the Scarecrow, in a grieved tone; "you're a humbug."

The Wizard of Oz

Like the citizens of Oz, Europe's financial markets have lived for decades in the belief that an all-powerful ogre dictated their every move. The wizard varied from country to country – in Germany it was Deutsche Bank, in Italy Mediobanca, in France the Trésor, in Britain the Bank of England.

The precise powers attributed to each country's wizard varied, too. But one theme was common to all: wherever based, the wizard was the Sultan of Stability, the Pontiff of Petrification, the Lord High Enforcer of the Status Quo.

The wizards might not always be able to get their way in everything they desired – but if they were really determined that change should not take place, they could certainly prevent it. At the very least, the wizards could make life so unpleasant that any innovators lived to regret their temerity.

No more. As in Frank Baum's *Oz*, the truth now lies revealed: these ogres are mere humbugs. The Bank of England is just a bunch of economists. The Trésor's control of the French financial system is threatened from one side by Brussels and from the other by the ambitions of its own ungrateful offspring, the ex-civil servants running commercial banks and insurance companies.

Mediobanca, which once told Italian companies and banks when and with whom they might merge, now scrambles to keep up with a flood of transactions initiated – or at least assisted – by foreign investment banks. Deutsche Bank's power is being sapped by a thousand pin-pricks, ranging from the competition of state-guaranteed rivals at home to defecting US investment bankers and politicians determined to examine its wartime past.

The vanishing power of the wizards is usually ascribed to a magic spell, the incantation of the words "Anglo-Saxon values". Once these words are spoken, the cloak of mystery falls away, and the ogre is revealed to be, as in *Oz*, "a little old man, with a bald head and a wrinkled face". It is natural that those who are, at least notionally, Anglo-Saxon should share this comforting illusion. It is even understandable that those who are not should be willing to go along with this conventional wisdom for the moment, since it absolves them of the responsibility of more considered judgment.

But the new myth – the all-encompassing power of a set of attitudes dating back to the era of woad and wattle – is no more plausible than the old. In place of a status quo enforced by the old wizards, we must now believe in a state of flux enforced by New York investment banks and London fund managers. These new wizards will prove no more omnipotent than the old.

In the meantime, however, this illusion of limitless potency leads to a series of very bad decisions. One characteristic of magic has always been its undiscriminating nature. Spells work on the ugly just as well as on the beautiful. They assist the charlatan as powerfully as the sage. This is clearly visible in the creation of continental-scale businesses. They are coming about for irresistible reasons, as a result of the intertwined forces of globalisation and European integration.

But historical inevitability is not an even-handed process. For every well-judged merger, there are a host of meretricious alternatives. Worse, it is increasingly difficult to tell one type from the other. All use the same incantations, the same rituals and impedimenta. Commentators feel obliged to consider the rival proposals with equal gravity and impartiality, weighing – for example – Telecom Italia's case against Olivetti's as if each were the product of decades of academic research instead of a confection of ingredients such as desperation, wishful thinking, cupidity and opportunism.

Takeover codes lashed together in response to the last botched coupling are scrutinised and interpreted as if they were the work of Justinian. This process is part of capitalism's creative destruction. Out of it will come a European industrial and financial structure suitable for the 21st century. But along the way there will be a great deal of waste, confusion and ruthless profiteering. That is the way market economies work.

We cannot – indeed, should not – seek to change it. But we can avoid treating the process as if it is more perfect than it is. In particular, we should not believe that every European merger proposal is justified merely because it promises scale and shareholder value, and because it comes recommended by a New York investment bank.

"But isn't everything in the Emerald City green?" asked Dorothy. "No more than in any other city," replied Oz; "but when you wear green spectacles, why of course everything you see looks green to you."

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Hazards of assistance

David White weighs the benefits and risks of becoming dependent on EU aid

Holidaymakers might pause to think about the big blue sign hanging in Palma de Mallorca's spacious new airport. It records that the terminal was co-financed by the Cohesion Fund, the special scheme for the European Union's neediest members.

The island is no longer poor by European standards, and prosperous by Spain's. On the other hand, more Germans use the airport every year than Spaniards. Maybe they will be pleased to be partaking in the benefits of EU handouts, of which Spain is the biggest receiver and Germany the biggest payer. Or maybe they will resent the comparison with their own, less swanky facilities in Düsseldorf or Berlin.

Spain is now getting more grant money than any EU member has ever received before. It is true that proportionally, the smaller economies of Portugal, Greece and Ireland do even better. But Spain is a broader test of the efficacy of EU aid, partly because its larger economy is not swamped by the money. If you add up all the financial programmes available in the EU for "structural" measures – regional and social funds, plus part of the budget for agriculture and fisheries – the grants run at more than €30bn a year. A quarter of the total goes to Spain.

The future of these funds is now being haggled over in negotiations over the EU's spending plans for early next century. Behind the argument over who deserves what, more fundamental doubts lie unanswered: about the funds' effectiveness, and about the balance of benefits and risks in perpetuating a reliance on aid. In other words, the question is not just "who should get the money?" but "how much good does it do?"

Overall, the evidence shows that differences in output per head of population have gradually diminished between EU countries, and to a lesser extent between regions. But the gaps remain big. Nearly a fifth of Europeans live in regions where the output per head is at least 25 per cent below the average. According to the European Commission, only 2 per cent of people in the US are in a similar position.

A recent Commission report concluded that, without EU grants, growth in Ireland, Greece, Portugal and the more backward parts of Spain would have been 5-10 per cent lower in the past 10 years. In that time national income per head for the four countries has climbed from 68 per cent to 78 per cent of the average.

But much of this gain may be attributable to other aspects of their integration into Europe, not just aid. The volume of their trade with other EU countries, for instance, has doubled.

The poorest regions have also closed a bit on the richest regions. But regional discrepancies within countries have sometimes been aggravated, with favoured zones such as Dublin and Lisbon catching up faster than their rural hinterlands. And in terms of unemployment, the divergence has, if anything, increased. Southern Spain is stuck with an official jobless rate of around 30 per cent, three times the figure for the EU as a whole.

In general, benefits for backward regions have not translated into extra jobs. Spain, with its big reserve of unemployed labour, has recently been creating jobs faster than anywhere else in Europe, but mostly not in the areas where EU aid is concentrated. The employment rate in the south and the north-west – prime aid receivers – has actually fallen slightly. But it has risen in places such as Madrid, which are left out of the EU's main aid programmes.

Despite the lack of correlation between jobs and aid, Spain is counted among the EU countries that have obtained the best value for the EU's money. It has used it cleverly, applying Cohesion Fund grants to parts of the country that regional funds do not reach. Networks of new highways testify to the results. But they are not always where the enterprise is. The co-operatives of Mondragón, deep in the valleys of the Basque country, have not enjoyed good transport connections, but have nonetheless grown to become one of Spain's top 10 industrial groups. For the time being, it is a 40-minute truck ride away along winding roads.

"You cannot really state that the gap between different regions has been reduced," says Laurent Van Depoele, the European Commission's head of rural development. But at the same time regional authorities have grown accustomed to having access to funding. "There is this tremendous tendency – once they get the money they want to maintain it and even increase it."

This is one of the hazards of intensive aid. Another is the danger of skewing economic policies. Since grants require matching funds from the host country, they draw national resources to EU-backed projects. Regional development plans are up to national governments, but they are prepared with guidance from Brussels and usually geared to projects readily eligible for backing. This has encouraged flagship investments in roads, railways and industrial parks, even though Brussels officials would prefer to see more attention paid to training and research, and to southern Europe's lag in pollution control.

Spain is one of the EU countries that have obtained the best value for the EU's money. It has applied Cohesion Fund grants to parts of the country that regional funds do not reach

Much of the aid goes into subsidising industry. But Isabela Atanasiu, a research fellow at the Centre for European Policy Studies, the Brussels think-tank, says there is no rigorous evaluation of how these subsidies have worked, and it is open to question how much support is really necessary.

The supposed regional benefits have to be set against distortions to competition. The subsidised creation of jobs can also affect the wage bargaining process and make the labour market less flexible. Many of the jobs created in a new venture are usually lost somewhere else. But for a government, subsidies are all the more tempting and addictive when the money does not come directly from the pockets of its electorate.

"We must realise we can't live for ever on funds," says Francisco Seixas da Costa, Portugal's state secretary for Europe. "But for the time being we still need some support to be able to compete."

The "cohesion" countries – which qualify by having a per capita national output of 90 per cent or less of the EU average – insist on keeping their special status until they pass the threshold, as Ireland already has. They argue that benefits work both ways: Athens gets a new airport, but Hochtief of Germany heads the consortium building it.

A senior Spanish official at the Commission says the case for keeping up the flow of money should be made on the grounds of effectiveness. But for the Spanish authorities it remains an emotive issue. The very word "cohesion" has totemic value.

Rafael Termes, a veteran professor at IESE, the Barcelona graduate business school, and former chairman of Spain's banking association, has broken the taboo by arguing that Spain would be better off without cohesion funds. He says they act as a shield against competition. Scrapping them would concentrate minds on improving technology and training, and force more liberalisation of markets for labour, products and services. But he accepts that he is "a lone voice".

For southern Europe, solidarity and redistribution of wealth are part of what the EU is about. The Spanish know – especially with new and much poorer members on the EU's doorstep – that they will not be getting the same favourable deal 10 years from now. But they are not yet ready to think about kicking the aid habit – however questionable the effects of aid may be.

LETTERS TO THE EDITOR

Do we need Milosevic's permission to strike?

From G.R. Clarke.

Sir, Bill Clinton said on Friday, with reference to Kosovo, that "hesitation is a licence to kill". True. An enormous human tragedy is unfolding before our eyes. Why, therefore, are we witnessing hesitation? Nato generals have repeatedly assured us over many months that all the necessary plans were in place and *that no further permissions* were needed from anyone in order to commence action. Nato should have acted on Saturday, as soon as the observers had left. Yet we see Richard Holbrooke, the US special envoy, making another visit to Belgrade. Is it to ask Slobodan Milosevic's permission to commence *hostilities*?

This is really tragic and very ridiculous.

Two things are needed very fast. First, a safe area to be created for the Kosovars, free of all Serb security *forces. This will* need a very large number of ground troops because the local Serb civilians also need protection and because Serb forces need to be ejected.

Second, there must be a speedy referendum for the Kosovars on full independence from Serbia.

Furthermore, the capture *and trial of Mr Milosevic* for war crimes is not just desirable but imperative, because the parallel with Saddam Hussein and the Kurds in northern Iraq is becoming all too painfully obvious.

G.R. Clarke,
David Street,
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UK should accept cut in EU budget rebate

From Kirsty Hughes.

Sir, Your lead story of March 19, "Boost for UK on EU rebate", claims that the *UK's budget rebate is* no longer under threat at the Berlin summit. But it then admits that the UK will still be under pressure from the other member states not to apply the rebate to enlargement *costs. If the UK agrees* to this, it will represent a cut in the rebate of £1bn, according to Treasury estimates.

In recent evidence to the House of Commons foreign affairs select committee, the Foreign Office states: "The government is not prepared to countenance any adverse change to the UK abatement. On enlargement the abatement will continue to apply *on all allocated spending* in the EU, including in the new member states." It explains that "it is what the UK pays overall ... that matters, not what the UK pays towards expenditure in the new *member states. Even after* the likely costs of enlargement, the UK is still likely to be paying more than its fair share."

The UK rebate is not as well justified as it was back in 1984. And, as a leading supporter of enlargement, the UK government should pay up and accept a cut in the rebate. But if a deal is done in Berlin, this will represent the first cut in the rebate since it was won by Margaret Thatcher. We can expect Tony Blair – *assisted* perhaps by other heads of *state – to try to spin it differently.* But don't expect the sceptics not to notice.

Kirsty Hughes,
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Gems and jewellery are where India shines

From Mr Michael Ashfield.

Sir, On two occasions recently your newspaper has named software as India's biggest success story of the 1990s ("Silicon subcontinent", *March 15*, and "High-risk strategy begins to pay off for Indian high-tech pioneer", March 18). While software has done well, I think you have succumbed to the hype that accompanies it.

Official figures of India's foreign trade show that diamonds and gold jewellery (particularly the former) remain a better story.

In the latest full year for which figures are available (1997-98), India's exports of "gems and jewellery" were worth \$5.1bn – up from \$2.9bn in 1990-91. A look at the import bill for rough diamonds indicates that value added by the Indian industry before re-export is 60 per cent.

However, it is my impression that the figures quoted by the Indian software industry's trade association are not necessarily accepted by the country's official statisticians, and that for some software exports, more of *the added value* accrues to, say, businesses in the US than to businesses in India.

Michael Ashfield,
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UK

Water 'crisis'

From Mr Jacob Burke.

Sir, In the wake of your story "UN warns of water wars next century", (March 19), it is not clear to me where this crisis is supposed to be occurring. For a newspaper that devotes many column inches a year to the financing of water utilities, it would have been useful to distinguish between the provision of water services (raw, bulk and retail) and the management of the water resource base itself. In *general, it is possible to* observe chronic shortage of reliable water services and economic competition for the resource base, but rarely absolute "water shortages". No doubt this confusion will *persist until the war is over.*

Jacob Burke,
technical adviser,
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United Nations,
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Love, hate and the salesman

From Mr Leslie Caplan.

Sir, It is understandable for a salesman to be in love with his own product (Bill Gates on business: *"Coping* with an era of change", March 22), but he should not attempt to turn it into a value system. Electricity certainly did not "reshape civilisation". If Mr Gates had *spent more* time reading Tolstoy and Dostoyevsky, and less with his 0s and 1s, he would *know that love and* hate, loyalty and betrayal, happiness and frustration are what civilisation is about, and that these have not changed one iota; nor will they be, by his beloved web or by the 40" screens he looks forward to us disfiguring our walls with.

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COMMENT & ANALYSIS

FINANCIAL TIMES
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Tuesday March 23 1999

Nato's test in Kosovo

The moment of truth between Nato and Slobodan Milosevic has come. If Richard Holbrooke, America's diplomatic weapon of last resort, fails to persuade the Yugoslav leader to halt his aggression against the ethnic Albanian majority in Kosovo, and give it autonomy, Nato will be put to the test over the threat to bomb Yugoslavia it has voiced so often in the past six months.

Sadly, Mr Milosevic's obstructionism at the negotiating table and his current offensive in Kosovo would now leave the alliance no other option than to send in the bombers. But the military option is dire, not least because no one in Nato quite knows what to do if bombing fails to shake Mr Milosevic's resolve. None of Nato's 19 allies is ready to invade Yugoslavia with ground troops.

The enormity of Nato launching its first attack against a sovereign state is not to be underestimated. Unlike Iraq, Belgrade has not invaded another country. Nor is the situation akin to Bosnia, where the legitimate government invited outside intervention. Nor, finally, has the United Nations Security Council specifically authorised Nato to bomb. But as justification, Nato points to breaches by Yugoslav forces of past Security Council resolutions on Kosovo. The alliance also claims that modern law has developed to the point that military action is justified if used to prevent humanitarian catastrophes.

It is this stretch of international law that has rallied Nato's more pacifist members behind bombing, and stilled the voices of people like Kofi Annan, the UN secretary-general, otherwise certain to be raised in objection. Yet it might not be credible without Mr Milosevic's behaviour, which can only be called bloody-minded in both senses of the word.

Belgrade has prevaricated over a peace deal by which, at least for an interim three years, the Albanians committed themselves to staying inside Yugoslavia. That concession, which took the west months to wrest from the Kosovo Liberation Army, is more than Belgrade could achieve on its own. Then, just as the KLA started to play politics rather than soldiers, Belgrade reversed the achievement by issuing arrest warrants for its leaders. And now the use of heavy armour – out of all proportion to KLA sniper fire – confirms Belgrade's desire for a military solution to the conflict.

If Nato is going to invoke the fear of a humanitarian catastrophe, then that concern must guide all its actions. It must not worry about losing face, but about the Kosovars. It must choose targets to minimise civilian casualties, both Serb and Albanian. And then the allies must fervently hope that bombing leads Mr Milosevic to blink, or the army to stage a coup against him, and not simply to step up their offensive.

Bailing in

The role of foreign banks in resolving the developing-world financial crises over the past two years was at best haphazard, at worst deeply damaging. Some restructurings of bank loans, such as South Korea's, were fairly successful; others, particularly in Russia and Indonesia, were disastrously unsuccessful. Some creditors lost enormous amounts of money; others got off scot-free. Yet opposition from banks could mean that fresh attempts to "bail in" private lenders lose momentum.

Probably the most difficult issue is how to deal with inter-bank lending, the rapid withdrawal of which caused so much damage during the Asian crisis. One answer is to discourage this sort of lending, through Chilean-style taxes on short-term inflows – though these can be difficult to police – or through tighter regulatory controls on either emerging-market or creditor banks.

A broader requirement is to improve the procedures for organising voluntary private-sector workouts for all non-sovereign debt. These are currently slow, ad hoc and prone to failure. A pre-arranged standing committee of creditors could help speed up restructuring discussions. In addition, creditor-country officials need to use their moral weight at an early stage in the crisis to persuade creditor banks to participate in a rescue package, and not to withdraw crucial lines of credit. These changes need to go hand-in-hand with improved bankruptcy procedures across the developing world.

Ongoing support and an early debt restructuring agreement by creditor banks is the ideal. However, there are many obstacles to such a solution. For this reason, the International Monetary Fund needs to have the ability to intervene and sanction a debt moratorium if negotiations are failing, to stop the situation from spiralling out of control. This idea is fraught with difficulties – not least, when should the moratorium end? – and so should be used only in the worst circumstances. The threat of IMF intervention, though, would often be enough to bring creditors to the negotiating table.

Banks and investors are complaining that such measures will raise the risk premium on emerging market debt, and slow the return of capital flows to these markets. But the risk premium was previously far too low, which is precisely why such unsustainable debts built up in the first place. If reforms of private-sector workouts achieve a more accurate reflection of emerging-market risk, even at the expense of some new capital flows, then in one respect at least they will have succeeded.

Cash for cars

Can you spare a fiver to save the workers of Longbridge?

British taxpayers may be asked the question in a slightly different form; but the government's latest offer of £120m to keep the Rover car plant afloat amounts to about that sum per head of the working population.

BMW wants the handout, or preferably about £200m, as a contribution to its £1.7bn investment plan for the plant. If this were the price for ending the sad saga of subsidies, under-investment and labour unrest at Longbridge, it might be paid cheerfully. But hopes have too often been dashed after new managements accepted big cheques from the government to revive the former flagship of the British motor industry.

The great attempt to rationalise marques under the British Motor Corporation was followed by the failure of British Leyland, the successor company, to turn it round commercially. Then in 1994, after a period under the control of British Aerospace, the remains of the car business (now shrunk into the Rover brand) was rescued by BMW.

If any company could make a success of Rover it was BMW, with its formidable engineering and marketing skills. But after a cash outflow of £3bn, it finds itself with a brand that commands some 5 per cent of the UK market and turned in a loss of DM1.87bn (£668m) last year.

Against this background, it may be asked: if BMW is prepared to bet the farm, why should the UK government not contribute a few more sacks of seed-corn? The broad answer is that this is not the sort of thing governments should do at all. A narrower one is that Britain no longer needs Rover: it has shrunk almost out of sight. And there is no patriotic motive for helping a German manufacturer in Longbridge any more than, say, a Japanese company in Sunderland or a US multinational in Halewood.

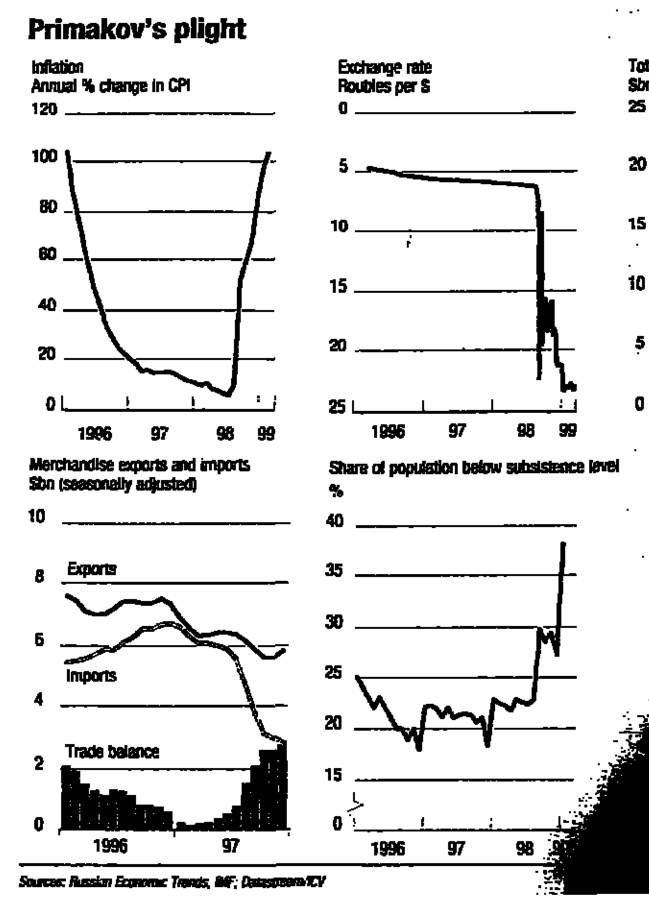
Yet since most car companies in the UK – and the rest of Europe – are subsidised, it would be difficult for the UK government to refuse all help to save jobs in this case. The cost per job is high – some £20,000 if a subsidy of £200m is assumed. But this is only half the cost to the taxpayer of the 6,100 jobs created by LG of Korea at two plants at Newport in Wales. It also compares favourably with estimates that the government's Family Tax Credit scheme will cost £50,000 for each new job created.

In a world of excessive subsidies to car production, the chance that BMW can save Longbridge may justify one last bet. But it must be the last. Meanwhile, the UK government and its EU partners should seek to end the absurdity of competing to subsidise an industry suffering from chronic over-capacity.

Should we support Primakov?

As Russia's prime minister arrives in Washington, **John Thornhill** asks whether the US Treasury and IMF will put their reservations aside once again and come to his country's aid

Primakov's plight



Sources: Russian Economic Trends; IMF; Datastream/ICV

The latest joke in Moscow has it that the light at the end of the tunnel has been temporarily switched off because of an electricity shortage. Today, Russia's small, portly prime minister, arrives in Washington DC in the hope of switching it back on again.

Yevgeny Primakov wants to persuade the International Monetary Fund to resume its lending programme, suspended in the wake of August's economic crash. He will also upbraid the US for the expansion of Nato and for US policies towards Iran, Iraq, and Kosovo – without (he hopes) fatally alienating the US government. Tough though the mission may seem, Russia's artful premier has grown skilled at reconciling the seemingly irreconcilable.

Mr Primakov's visit is already being described by the Russian media as the defining moment in his six-month premiership. Since being thrust into office last September, Mr Primakov has restored a semblance of stability to Russia – remarkable in a country that has seen 22m people slip below the officially-defined subsistence level during his time in office.

If he can claim any kind of victory, following his talks with the US administration and the IMF, he may well emerge as the successor to the ailing President Boris Yeltsin. Mr Primakov has passed the toughest budget Russia has had for years and, by reducing the power of the rich Russian oligarchs, has made a start on tackling cronyism and corruption.

But Mr Primakov himself concedes that Russia would be in a dire position if he returned from Washington empty-handed. Russia cannot possibly make the $17.5bn of public debt repayments due this year out of total budget revenues of $22bn: it must seek an orderly debt restructuring. If it does not get it, it is hard to see how Russia can avoid defaulting on its IMF debt. That would mean it could not borrow on world capital markets again for decades, casting itself into international financial oblivion and wrecking Mr Primakov's assertions of "great power" status. The government would almost certainly then have to finance spending by printing more money, fuelling high – if not hyper – inflation.

That would lead to greater social and political upheaval, irreparably damaging Mr Primakov's reputation and hastening the further dissolution of the federal government. That would not necessarily mean the replacement of Mr Primakov by a militantly-aggressive nationalist: Yuri Luzhkov, the mayor of Moscow, might well be the initial beneficiary. Nor would it inevitably entail the complete collapse of the government, which would continue to receive energy and other taxes. But Russia would have taken one more lurch along its downward spiral, at the bottom of which the country would be, in the words of one of Mr Primakov's advisers, no more than a "shape on a map".

So what are the chances of coming to an agreement? "The central problem for our public finances is somehow to solve the problem of foreign debt. The only way for this to happen is to negotiate a new programme with the IMF," says Alexei Ulyukayev, deputy director of the Institute for Transition Economies. "We may dislike them but we must reach an agreement with them."

After months of tortuous – and at times acrimonious – talks, the IMF appears to be softening its rhetoric. And, in spite of deep misgivings, the US administration appears ready to help.

Last week, Robert Rubin, the US Treasury secretary, expressed frustration that the Russian government was not pursuing reforms more energetically but revealed a greater sense of alarm about the risks of economic collapse. "If Russia destabilises, the costs to the US are going to be vastly greater than anything we can possibly think of," he said. "We have to hope that they can continue to wallow through."

That would appear to mean putting faith in Mr Primakov, who is the master wallower. His government may not have drawn up a coherent economic programme, yet it has muddled through the winter more or less intact. The finance ministry has somehow succeeded in balancing the budget – although many wages and pensions remain unpaid. The central bank has refrained from large-scale money printing and preserved some exchange rate stability without yet devising an explicable monetary policy.

As one newspaper commentator wrote, it is almost as if Mr Primakov has "anaesthetised" the country, dulling its problems without resolving them.

Vladimir Ryzhkov, the parliamentary leader of the moderate Our Home is Russia party, says he would personally award Mr Primakov a score of three on the five-point scale used to grade Russian schoolchildren. "Things could be better but they are not as bad as many had feared," he says. Coming from a member of the party led by Viktor Chernomyrdin, whom Mr Primakov displaced as prime minister, this is slightly more than faint praise.

Mr Primakov's supporters claim that the appearance of masterly inactivity belies a more serious intent, which the prime minister will unfold in Washington. Previous Russian governments may have been long on rhetoric but they were short on delivery. The publicly lugubrious Mr Primakov will privately promise to deliver the reverse. Russia's chief problem is a lack of political authority, rather than a dearth of sensible economic ideas. A consensus must first be forged before any real economic reforms can succeed.

To this end, the 69-year-old Mr Primakov has pacified Russia's unruly, Communist-dominated parliament by forming a coalition government and championing a "socially-oriented market economy". This has enabled the government to pass its toughest budget in years and enact new laws such as internationally-recognisable Production Sharing Agreements (PSAs), designed to unlock investment in Russia's oil and mining industries.

Mr Primakov has also stemmed the erosion of the federal government's authority by bringing several regional governors to heel, cracking down on corruption, and taming the influence of Russia's over-mighty "oligarchs". In a fierce battle, Mr Primakov has largely neutralised the influence of Boris Berezovsky, the business tycoon and adviser to the Yeltsin family. "For this victory alone they should set up a statue of Primakov on Red Square," says one industrialist.

'Foreign money has only helped incompetent people to buy time to do nothing'

Yet others point out the many flaws of Mr Primakov's handiwork. The IMF argues the government has not yet taken the steps needed to raise more tax revenue. Indeed, the IMF remains alarmed by some of the government's tax-cutting proposals and its tolerance of big companies paying their tax bills with IOUs rather than hard cash.

Mr Primakov has ignored seemingly well-founded allegations of corruption within his government while targeting "economic criminals" elsewhere. The absence of banking industry reform has allowed troubled "oligarch" banks to siphon off their assets while abandoning their liabilities to their creditors – a practice hard to distinguish from theft. A punitive restructuring plan has been imposed on holders of Russia's frozen domestic debt.

In Washington, Mr Primakov will be attacked by the Republican right. As a former Soviet Middle East expert, Mr Primakov developed uncomfortably close relations with Saddam Hussein, the Iraqi leader. As head of Russia's espionage service in the early 1990s, Mr Primakov ran Aldrich Ames, the spy at the heart of the CIA. In recent weeks, the Central Intelligence Agency has warned the White House about the "authoritarian creep" of Mr Primakov's regime. The appearance of Mr Primakov's former colleagues from the revamped KGB in influential posts has fuelled US concerns about Russia's civil rights and freedom of speech.

However, Al Gore, the US vice president who is acting as Mr Primakov's formal host, seems likely to play down these concerns. As he gears up for his own presidential bid next year, Mr Gore will be desperate to keep bad news from Russia off the front pages of US newspapers and will doubtless appreciate the attractions of Mr Primakov's appeal for stability.

Politically, the most convenient outcome for the US administration would seem to be for the IMF to resume lending to Russia, perhaps with tough new conditions, such as making the loans back-loaded (ie, money is not released until late in the day). Then, Mr Primakov will be able to claim a partial victory, Russia's foreign creditors will be appeased, and the US administration can defer a tricky debate about "Who Lost Russia?".

However, no one pretends that this would be anything other than a palliative. An IMF agreement may be vital to allow Russia to reschedule its foreign debts but it will not provide much of a cash injection this year. The IMF, which is owed $4.6bn by the Russian government this year, will pass any new loans from one Washington bank account to another. The Russians will still end up with some extra cash, because an IMF agreement could unlock various loans from Japanese creditors and the World Bank which are now on hold because of the IMF dispute. But whether the economy will benefit even then is a moot point: Russia is suffering from capital flight, so the extra money could still end up abroad.

Above all, there seems little chance of long-term reform, even with an IMF agreement. "For the past 10 years I have been of the view that foreign money has only helped incompetent people to buy time to do nothing," says Boris Fyodorov, Russia's former finance minister. "Giving this government more money will not solve a single economic problem in Russia."

Yet perhaps it is unrealistic to expect Mr Primakov – or the IMF – to deliver more, trapped as they are between an unruly parliament and an unpredictable president in the run-up to the election season – arguably in both countries.

Mr Ryzhkov argues Russia can never become a responsible law-based state while it retains an irresponsible legislature. The only solution is to change the "absurd" 1993 constitution ensuring that the government is formed by parliamentary majority, not presidential whim.

But with typically Russian fatalism, Mr Ryzhkov concedes that the only possible solution to the country's ills is impossible to achieve – at least this side of next year's presidential elections.

Wallow seems set to continue.

OBSERVER

Revenge tragedy, Milan style

Italy might be amazed by the sound and fury of its biggest bank mergers yet, but underneath it all there's an old fashioned Sicilian vendetta.

Upstart Gerardo Braggiotti is enjoying the sweet taste of revenge over his former Sicilian boss, the 92-year old Enrico Cuccia, and Cuccia's "young" 61-year old protégé Vincenzo Maranghi.

Barely two years ago they formed the trinity at the top of Mediobanca, the secretive Milan investment bank that's been pulling all the strings of Italian big business for the past four decades.

Braggiotti was forced to resign after Cuccia and Maranghi objected to his plans to modernise the staid institution.

But when Mediobanca decided to side with Olivetti in a blockbuster bid for Telecom Italia last month, the 47 year-old Braggiotti popped up as one of the main advisers of the besieged privatised telecommunications group.

Shortly afterwards, he emerged as the principal investment banking adviser of UniCredito, a big banking group that launched a friendly merger bid for Banca Commerciale Italiana, scuppering Mediobanca's ambitions to keep its match-making role.

And if Braggiotti's called back to Mediobanca to replace the old guard? Maybe, in the finest Sicilian tradition, his revenge will be complete. But perhaps he's set his sights still higher.

Mauler Mickey

Observer has a hunch that there was one big winner on Oscar night – and his surname is Mouse.

In the past, Mickey and Disney supremo Michael Eisner haven't got on too well with Jeffrey Katzenberg, a former Disney studio chief who broke away from the Magic Kingdom five years ago.

It was difficult even when they worked together. Eisner once ordered that Katzenberg be paid a bonus in pennies delivered to the front door of his house – a gesture Katzenberg can't have appreciated too much.

So it was something of a grudge match when *Shakespeare in Love*, produced by Miramax, Disney's art-house label, took on *Saving Private Ryan*, the favourite from DreamWorks, the upstart studio Katzenberg co-founded with of couple of pals.

And when the Bard beat the GI by seven gaudy statuettes to five, it can only have been music to Eisner's ears.

Mickey and Michael also scooped up another two Oscars for the Italian-made *Life is Beautiful*. And the mouse even spared us from an acceptance speech.

Glittering Gerd

First it was the fight over nuclear waste. Then it was tiffs with his colleagues. And now Gerhard Schröder has set Germany's fashion industry complaining.

The German chancellor was unwise enough to appear in a magazine photo-shoot with an Italian-made DM4,000 cashmere coat on his ample shoulders. That made Deutsche haute couture complain that his offence was as grave as turning up for work in a Fiat or a Ferrari.

But sartorially speaking, it's not all bad news for the chancellor. Now his rival Oskar Lafontaine has departed from the political scene, it's Schröder who's wearing the trousers in the German government.

That's put the Greens in the government in a tizz since Lafontaine was their link with the chancellor. They were also once the trend setters in German political fashion.

Foreign minister Joschka Fischer has done more for the waistcoat industry than a thousand bankers. But with his new taste in attire, perhaps Schröder is really trying to steal the Greens' clothes.

Cosmopolitan

So what's the biggest issue facing Ikea, the company that sells you everything from dining tables to designer dog kennels?

The world's largest furniture retailer is worried that its new boss might come from too far afield.

The new chief executive, Anders Dahlvig, has worked for Ikea since leaving college in 1983. But, unpardonably, he does not come from the Swedish province of Smaland, where Ikea is based. Instead he comes from the neighbouring province of Skane.

He pleads that many of his relatives come from the right side of the tracks. Do other multinationals have this problem?

Faking it

Hats off to Swedish cellular phone-maker Ericsson. Fed up with losing business to dubious products using its name, the company has come up with a clever way of sorting out the offenders.

With thousands of information technology groups gathered at the giant CeBit technology fair in Hanover, the Swedes decided to send in a hit squad.

Undercover Ericsson staff have been singling out the offending products – the haul so far includes fake mobile phone batteries, front panels and cases.

As well as sending out 50 warning letters, it's already served injunctions against two exhibitors to prevent them showing and selling counterfeit products. Any complaints? – don't ring Ericsson.

The Financial Times

100 years ago

American Cycles in Germany
An United States Consular Report for March gives an account of an ingenious plan on the part of German cycle manufacturers to kill the American cycle trade in that country. The members of the German Bicycle Manufacturers' Association had decided to refuse, after a certain day in December last, all credit to any dealer who handles, as part of his stock-in-trade, a bicycle of American origin. German manufacturers had hitherto been accustomed to give retailers as much as four months' credit.

50 years ago

Indian Freight War
The freight war between a seceding Dutch line and the ten remaining companies forming the Karmahom Indian Shipping Conference has been carried a stage further. Having initiated each downward move in cargo rates, the Dutch line was left behind on Monday when the conference cut reached 80 per cent against the Dutch 75 per cent. Yesterday the Dutch slashed their rate to 80 per cent and were again left behind by the conference reply in the shape of a 10 per cent deferred rebate.

FINANCIAL TIMES
TUESDAY MARCH 23 1999

THE LEX COLUMN

Cable casino

In the $60bn merger of Comcast and MediaOne the numbers may be *staggering* but the concept is simple. Splicing together the fourth- and third-largest US cable companies will create a huge broadband network reaching nearly 20m homes. *This platform can be* used to sell consumers a panoply of services, from television and digital videos to telephony and internet access.

Granted, there is a bit more to it. The two look a good match. Comcast, controlled by the father-and-son team of Ralph and Brian Roberts, is probably the *smartest* of the US cable operators. It should be able to raise margins at the more sluggish MediaOne, which was only recently *spun off from a* Baby Bell *phone* company. Comcast may also sell some of MediaOne's juicy overseas assets, including stakes in One-2-One and TeleWest of the UK. But there were no hard numbers yesterday to justify the whopping $11.7bn (32 per cent) premium for MediaOne holders – though Comcast is, of course, paying in its own high-flying stock.

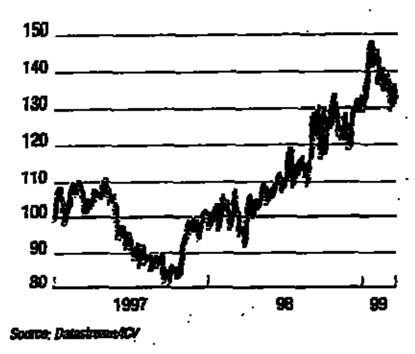
The bigger, long-term worry is whether consumers will want all those wonderful *value-added services delivered via their* cable connection or their phone line. The cable companies, now including AT&T, are betting billions one way and the Baby Bells and America Online billions the other. As the size of this deal shows, investors are fuelling the valuations of all concerned. But not everyone can end up *winning*.

Gucci

This was the right moment for the Dutch court to restrain Gucci's anti-takeover tactics. Before LVMH made a full bid for the Italian fashion house, Gucci's eyebrow-raising use of Amsterdam's lax rules on share issues had achieved two worthwhile goals. It had blocked creeping control by *LVMH* and provoked *the full bid*. Now that $8bn offer – for a company with about $3bn in cash – must be considered despite the Gucci management's antipathy to Bernard Arnault's group.

But shareholders who broke out the champagne on Friday at the prospect of $85 a share – 2½ times last year's low – *still have reason to feel a little* queasy. That offer was for Gucci before the dilution of a 40 per cent stake bestowed on its

Vivendi
Share price relative to the CAC 40 index



Source: Datastream/ICV

preferred French suitor – Pinault-Printemps-Redoute. *LVMH* has drawn attention to the irrevocable nature of that deal by cutting its offer to $81 – averaging out its original offer and PPR's purchase price of $75. Like Mr Arnault, other minority shareholders are experiencing the disadvantages of investing in a jurisdiction that puts too few checks on management.

As for PPR, LVMH's offer could give it an instant profit of more than $230m. But its strategy of creating a luxury goods division, led by Gucci, remains perfectly plausible. The least desirable outcome is that PPR sticks with 40 per cent and LVMH's offer fails, leaving it with just over 20 per cent. It is time for the supervisory board *to push for a clear winner*.

Vivendi

The US is an emerging market, at least when it comes to water services. This assessment underpins Vivendi's acquisition of water treatment company USFilter. About the same size as its 10 nearest competitors combined, California-based USFilter will catapult Vivendi into *a dominant position in a highly fragmented* but huge market. Reducing Vivendi's dependence on Europe makes sense. And given the high proportion of US water services still in public hands, Vivendi will be well placed to exploit a wave of privatisation opportunities.

This opportunity has not come cheap. *Corporate activity has already heated up* the market for prime North American water assets. Against an average in the industry for such deals of around eight times earnings before interest, tax and depreciation (ebitda), Vivendi is offering more than 11 times. But factoring in synergies between USFilter and Vivendi's own operations takes the multiple down to around nine times, which does not seem unduly rich given the new entity's market position.

As its 35 per cent outperformance of the French market this year shows, Jean Marie Messier, Vivendi's chairman, is making refocusing the sprawling conglomerate look easy. Now down to two main core areas, environmental services and media/communications, its transformation from industrial group to fast-growing service provider is well under way. Germany's Veba and Viag could certainly learn a lesson or two.

Dixons/Freeserve

How high can Dixons go? The UK electrical retailers' shares have more than doubled since last autumn, fuelled by the excitement surrounding its Freeserve internet service. Yesterday they climbed *another 5 per cent. With some valuations* of Freeserve exceeding that of Dixons' traditional bricks and mortar retailing business, a demerger or flotation deserves urgent consideration.

But is Freeserve really worth anywhere near these values? It is hard to see how. That is not to say it is not performing well. *Freeserve is piling on subscribers.* With about 1.5m, it is now the UK's market leader. This is reflected in its ability to attract advertising revenues. Last year, total UK advertising expenditure on the net was just £18m. Freeserve recently attracted a three year deal from Bertelsmann worth £10m.

Given this, analysts are increasingly comparing Freeserve to Yahoo!, the leading US portal. This trades on a racy 167 *times sales. Applying Yahoo's sales* multiple to Freeserve's estimated 2001 sales gives a value of £2.5bn. Discounted back at 15 per cent, this represents a present value of around £1.9bn - or 450p a share. Putting the retailing side's 41p of forecast earnings on a market multiple gives a value of 930p a share. This would imply Dixons is worth around £13.80 a share, suggesting a demerger would release no value with the shares now at £14.11.

CLINTON SAYS PLANS TO BOMB YUGOSLAVIA MUST CONTINUE TO MOVE FORWARD

Nato issues ultimatum on Kosovo to defiant Serbs

By Guy Dinmore in Belgrade, Gerard Baker in Washington and Philip Stephens in London

US President Bill Clinton said yesterday that Nato plans to bomb Yugoslavia "must continue to move *forward" unless his special envoy* Richard Holbrooke succeeded in getting President Slobodan Milosevic to rein in his forces in Kosovo and accept a peace deal.

In talks last night in Belgrade, Mr Holbrooke delivered an ultimatum to the Yugoslav president to accept a proposed peace agreement for Kosovo or face Nato air strikes, which diplomats said could start as early *as tomorrow*.

Hardline statements by Belgrade indicated a willingness to keep talking but a readiness to go to war if attacked.

Three international mediators, representing the US, Russia and the European Union, met Mr Milosevic *earlier and reported the Yugoslav* leader still rejected the power-sharing deal on Kosovo that ethnic Albanian negotiators have signed. State television reported that Mr Milosevic had written to the British and French foreign *ministers, telling* them they should be ashamed of themselves for threatening a small country with bombing. Belgrade was ready for negotiations but not an *imposed solution*, the letter said.

The timing of air strikes is complicated by a four-day visit to Washington starting today by Yevgeny Primakov, Russia's prime minister, who is opposed to Nato intervention. The White House said the visit would not affect US action over Kosovo.

At the same time President Clinton came under conflicting pressures from Congress. Some, mostly fellow Democrats, want quick *action following* months of threats while a number of Republicans complain air strikes would lack clear military and political goals.

"We are on the brink of military action – it is not too late to avoid it but the window is narrowing," Mr *Holbrooke warned when he stopped* in Brussels to meet Javier Solana, Nato secretary-general, and Nato commanders before flying to Belgrade. He said he had "no great expectations" of success.

The Yugoslav republic is on a war footing with a mass mobilisation of reservists. Doctors were refused permission *to leave the country*. "Bombs will kill any negotiations," Zivadin Jovanovic, the Yugoslav foreign minister, told CNN television.

Serbian security forces, mean*while, pressed* ahead with a scorched-earth offensive in northern Kosovo against ethnic Albanian rebels of the Kosovo *Liberation* Army (KLA). Villages were burning as thousands of civilians fled. Shooting erupted in the suburbs of the capital, Pristina. Armed Serb civilians were *patrolling the streets*.

The Yugoslav army said it was ready to return to barracks if the KLA "terrorists" *halted their provocations* and Nato withdrew its threats.

Diplomats said neither Mr Holbrooke nor Mr Milosevic had much room for manoeuvre but Nato might stay its hand if Belgrade committed itself to a ceasefire and serious negotiations *on a peacekeeping force*.

British bank losses of $12bn blamed on economic turmoil

By Richard Adams, Economics Staff

The near collapse of Long-Term Capital Management, the US hedge fund, and the Russian government's debt default last year contributed to UK-based banks suffering trading losses of £7.5bn ($12.2bn), official figures revealed yesterday.

The losses were the result of disturbed trading conditions in the second half of last year, according to Britain's Office for National Statistics.

The figures, from the UK's balance of payments data, showed the banks – both domestic and foreign-owned banks based in the UK – incurred *deficits of more than £1.5bn in earn*ings from interest rate derivatives transactions alone in the fourth quarter of *1998*.

The banks had recorded a similar £1.5bn deficit in the third quarter, but the ONS, the UK's government official statisticians, said: "The dif*ference between the fourth quarter* and the third quarter is that it is now more widespread than before and leaking into domestic banks."

Interest rate swaps involves switching an asset with a floating interest rate for one with a fixed interest rate.

The market turbulence, and sharp cuts in official interest rates in the US and the UK, are likely to have contributed to the losses, the ONS said.

The UK usually shows an annual *surplus on interest rate swaps trans*actions in its balance of payments. But after the unprecedented losses in the second half, the sector recorded its first annual deficit in *1998, of £3bn*.

The banks and securities dealers also had net trading losses of nearly £2bn in the fourth quarter; according to the official figures.

That followed combined third quarter trading deficits of £2.6bn, which the ONS also ascribed to mar*ket upheavals*.

"UK branches of foreign-owned banks continued to be affected by adverse conditions in emerging markets and exposure to Long Term Capital Management," the ONS said. *Outside the banking sector, the UK* current account figures contained some good news.

The overall balance of payments showed a surplus on the current account of £1.5bn. That was a fall of £4.8bn compared with 1997 *surplus*, but is the first time the UK has enjoyed two consecutive annual surpluses for 13 years.

The deficit in trade on goods was less rosy, as the trade gap widened to £20.6bn for the year – the worst *since* 1989. The ONS said the UK's net trade deficit cut 0.9 percentage points off its growth last year.

Its latest output estimate revised down UK growth from 0.2 per cent to 0.1 per cent in the fourth quarter, the slowest rate since 1992.

Bank boss's £1.6m pay-off, Page 21

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Hundreds of lorry drivers blocked roads in London, England, in protest at the cost of fuel and vehicle excise licences. Report, Page 8

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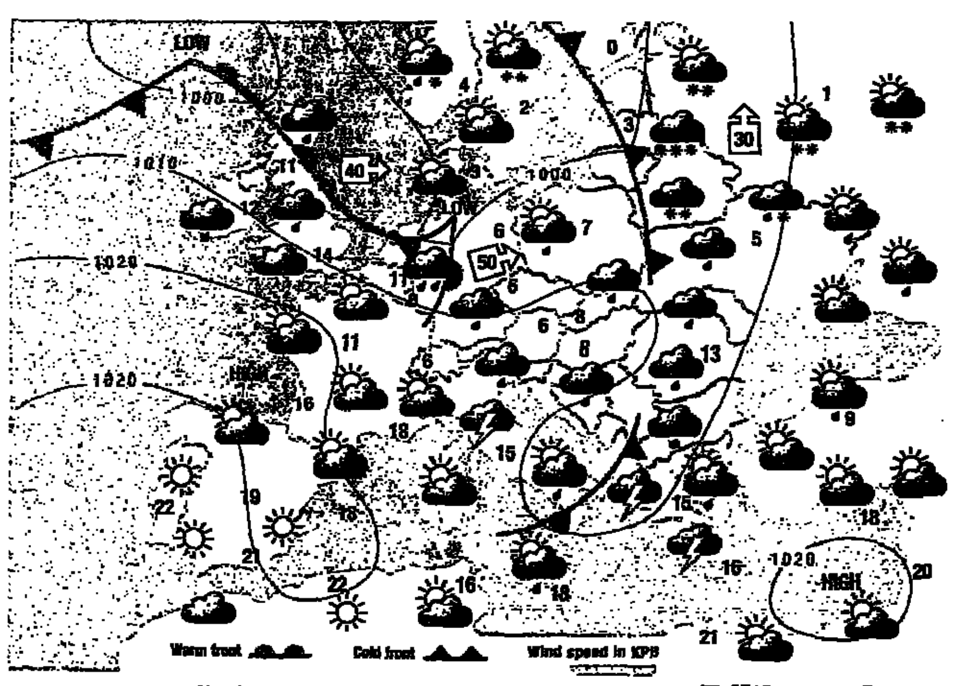
FT WEATHER GUIDE

Europe today
Northern Scandinavia will have snow and the south will have showers and sunny spells. Rain over the Low Countries will spread into Germany. Switzerland and Austria will remain showery and cloudy. Much of western Europe will be dry and sunny. Southern parts of Spain and Portugal will have the best of the sunshine. Northern Italy should be dry but the south will have frequent showers or thunder. Much of Greece will have showers. Crete and Cyprus will stay dry and should have some sunshine.

Five-day forecast
Northern Europe will stay unsettled with rain and snow. Germany will become drier before rain arrives on Friday. Showers tomorrow in southern Iberia will gradually move into the eastern Mediterranean while rain over Greece tomorrow will move into Turkey.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	35
Accra	Fair	32
Algiers	Sun	22
Amsterdam	Rain	9
Athens	Cloudy	15
Atlanta	Shower	22
B. Aires	Fair	26
B.ham	Shower	13
Bangkok	Shower	38
Barcelona	Sun	16
Beijing	Sun	15
Belfast	Drzzl	11
Belgrade	Rain	10
Berlin	Rain	6
Bermuda	Fair	22
Bogota	Fair	20
Bombay	Sun	33
Brussels	Rain	11
Budapest	Shower	8
C.hagen	Shower	3
Cairo	Sun	22
Caracas	Fair	31
Cardiff	Cloudy	12
Casablanca	Thunder	22
Chicago	Fair	9
Cologne	Rain	8
Dakar	Sun	24
Dallas	Shower	19
Delhi	Sun	31
Dubai	Sun	33
Dublin	Drzzl	12
Dubrovnik	Shower	14
Edinburgh	Cloudy	11
Faro	Sun	21
Frankfurt	Rain	8
Geneva	Cloudy	8
Gibraltar	Fair	19
Glasgow	Rain	11
Hamburg	Rain	6
Helsinki	Snow	0
Hong Kong	Shower	21
Honolulu	Fair	27
Istanbul	Fair	12
Jakarta	Fair	31
Jersey	Cloudy	12
Johannesburg	Shower	24
Karachi	Sun	31
Kuwait	Sun	26
L. Angeles	Sun	17
Las Palmas	Fair	22
Lima	Fair	26
Lisbon	Sun	22
London	Cloudy	14
Lux.bourg	Rain	6
Lyon	Fair	11
Madeira	Fair	18
Madrid	Sun	19
Majorca	Fair	16
Malta	Shower	18
Manchester	Drzzl	12
Manila	Fair	33
Melbourne	Fair	22
Mexico City	Sun	24
Miami	Fair	27
Milan	Sun	18
Montreal	Sleet	3
Moscow	Snow	1
Munich	Shower	6
Nairobi	Fair	28
Naples	Thunder	14
Nassau	Fair	26
New York	Cloudy	10
Nice	Sun	18
Nicosia	Fair	18
Oslo	Cloudy	4
Paris	Cloudy	11
Perth	Fair	25
Prague	Cloudy	6
Rangoon	Sun	37
Reykjavik	Snow	1
Rio	Sun	32
Rome	Thunder	15
S. Frsco	Fair	14
Seoul	Sun	14
Singapore	Shower	34
Stockholm	Sleet	2
Strasbourg	Rain	9
Sydney	Shower	24
Tangier	Sun	21
Tel Aviv	Fair	20
Tokyo	Fair	10
Toronto	Fair	5
Vancouver	Shower	12
Venice	Sun	14
Vienna	Fair	6
Warsaw	Drzzl	7
Washington	Fair	13
Wellington	Fair	21
Winnipeg	Sun	-1
Zurich	Shower	7

FINANCIAL TIMES

COMPANIES & MARKETS

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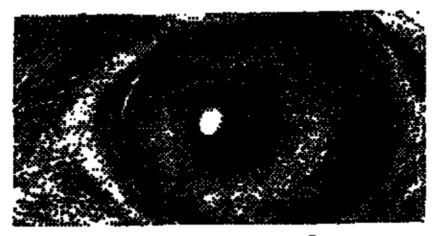

INSIDE

3Com under pressure to restructure
After a profits warning earlier this month and a share price that has fallen about 70 per cent over the past two years, 3Com is under pressure to restructure – but there are no obvious solutions for the sprawling networking group with its diverse product range. **Page 26**

Liffe contract fails to woo investors
A 10-year swap future launched by the London International Financial Futures and Options Exchange has failed to win back business lost when Liffe's 10-year German bond future moved to Frankfurt. **Capital Markets, Page 32**

SGS operating profits fall 44%
Operating profits of Société Générale de Surveillance, the world's biggest inspection and testing company, fell 44 per cent in 1998. Revenues were roughly unchanged but operating margins remained nearly halved. **Page 29**

Pakistan hit by cotton crop failure
Pakistan's cotton industry faces its fourth crop failure in five years, casting a shadow over the country's economic prospects and its ability to repay a recent loan package from the International Monetary Fund. **Commodities, Page 34**

Alliance concerns hit Nissan shares

Nissan shares have fluctuated in the 10 days since talks with DaimlerChrysler over an equity tie-up fell through, falling 9.3 per cent during the days since Renault made a bid to buy 35 per cent of the group. Concerns about the difficulties in an alliance with the French carmaker have spread, and Yoshifumi Tsuji, Nissan chairman, (pictured) has said that he will resign if Nissan agrees a capital alliance with Renault. **Page 24**

Vivendi is to consider US listing
Vivendi, the French communications and utilities group, has said it will consider seeking a US listing in three to five years time, and will not rule out any option, including offering shares in a separate water business. US investors hold 12 per cent of the company's shares. **Page 22,**

Jo'burg stocks defy gold tumble
Fears that the International Monetary Fund is to sell some of its gold reserves have sent gold shares tumbling in Johannesburg. But interest rate cuts and expectations of further monetary easing, have driven the all share index up 22 per cent. **Emerging Market Focus, Page 44**

Australian coal prices set to fall
Australian coal prices are expected to fall over the next five years, and increasing volumes of coal will be traded on the spot market, according to the Australian government's commodities forecasting agency. **Commodities, Page 34**

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MARKET STATISTICS

Commerzbank to raise $2.6bn

German banking group eyes stake in Crédit Lyonnais

By Tony Barber in Frankfurt

Commerzbank plans to raise more than €2.4bn ($2.6bn) in preparation for possible acquisitions in Europe's rapidly consolidating banking sector.

Germany's fourth largest commercial bank, sometimes identified by industry analysts as a takeover target itself, said it was interested in acquiring a stake in Crédit Lyonnais, the French bank that is to be privatised later this year.

Commerzbank sources said the bank would consider buying a stake of between 1 and 7 per cent in Crédit Lyonnais, depending on the terms set by the French government for the share offering this year. They said Commerzbank's strong capital base meant it could afford to acquire a stake for cash, but indicated that the bank would not move unless Crédit Lyonnais agreed to a co-operation arrangement with it.

German bankers say that French sensitivities about the potential role of foreign banks in France are so acute that co-operation agreements – rather than outright acquisitions or mergers – seem a more practical way for German banks to gain a foothold in France.

Martin Kohlhaussen, Commerzbank chairman, has criticised the hostile bid by Banque Nationale de Paris for Société Générale and Paribas, saying it appeared to be motivated largely by a French desire to be home to the world's largest bank.

Commerzbank also outlined a proposal to buy back up to 10 per cent of its shares. Investors welcomed Commerzbank's plans, pushing up its share price by 1 per cent to €28.35 as the Frankfurt stock market fell 1.5 per cent yesterday.

Commerzbank detailed its plans less than a week after Deutsche Bank, Germany's largest bank, announced a €3bn capital increase intended to back its proposed purchase of Bankers Trust of the US and pave the way for expansion in the euro-zone.

Deutsche, Commerzbank and Dresdner, the third big Frankfurt-based bank, are determined to play their part in reshaping the banking landscape of Europe. The euro's introduction in January has prompted a simultaneous push for consolidation in France, Italy and Spain and has opened up opportunities for German banks.

In a statement issued after a meeting of its supervisory board, Commerzbank said its new capital-raising measures would "give the bank the necessary flexibility to adjust its equity capital to business requirements, as well as enabling it to take advantage of market opportunities, including acquisitions in the financial sector".

Commerzbank is seeking shareholder approval to issue convertible bonds, bonds with warrants and profit-sharing certificates totalling up to €2bn. It also wants to create €436m in newly authorised capital, partly to replace expiring or already used capital, for issuing shares against contributions in cash or in kind.

The share buyback would take place within the next 18 months and could be used to reward shareholders by reducing the bank's equity, Commerzbank said. Other possibilities include reselling the shares in the market or re-offering them to all shareholders, it said.

Former Barclays chief paid settlement of $2.6m

By George Graham, Banking Editor

Martin Taylor, whose abrupt resignation as chief executive of Barclays last year left it in turmoil, has been paid £1.59m ($2.59m) by the UK bank as part of a settlement.

The payment, based on Mr Taylor's contract for 1999, was revealed yesterday in the bank's annual report, just days before the arrival of Michael O'Neill, the former Bank of America official it has recruited as its new chief executive.

Mr Taylor was paid £957,000 last year, including a £389,000 cash bonus. He will also keep his previously awarded shares and options, worth an estimated £3.2m, provided he complies with his agreement with Barclays.

A total of £15.2m was paid to Barclays' directors and officers last year, in spite of a dismal year in which operating profits on ongoing businesses fell 20 per cent to £1.99bn.

Mr O'Neill will be paid £1.7m in salary and bonus, but will also receive £5m of Barclays shares – matching his own £5m investment – on condition that he stays with the UK bank for three years.

Sir Peter Middleton, who has been acting chief executive and will take over from Andrew Buxton as chairman next month, promised a cost freeze that would begin with boardroom expenses.

At National Westminster Bank, executive directors' pay jumped 39 per cent last year to a combined £3.99m.

Lord Alexander, chairman, and Derek Wanless, chief executive, who both asked not to be considered for bonuses after NatWest's poor performance in 1997, received bonuses of £250,000 and £350,000 respectively.

Both Lord Alexander and Mr Wanless also exercised share options since the bank reported its annual results last month, immediately selling most of the resulting shares.

So too have Martin Gray, executive director in charge of NatWest's retail and commercial businesses, and Bernard Horn, executive director, group operations.

The four directors together sold 262,000 shares, taking profits of £2.4m.

AT&T launches a record $7bn bond offering

By Edward Luce, Capital Markets Editor

AT&T, the US telecoms company, yesterday broke new ground with the largest bond offering ever in a $7bn issue. The offering was increased from a planned $6bn owing to the strength of investor demand.

The sheer size of the bond, beating the previous largest offering of $6.1bn issued last year by WorldCom, the US telecoms company, has persuaded other borrowers to steer clear of the US corporate bond market in the past few weeks.

"Investors have been holding their fire while they waited for AT&T to come to the market," said one official in New York. "Even the US Treasury market has been subdued over this."

Proceeds from the offering will be used to refinance short-term debt issued by AT&T in its $55bn takeover of TCI last year.

The bond, which was lead managed by Merrill Lynch and Salomon Smith Barney, was split into five, 10 and 30-year tranches. "This will become a standard benchmark for all bond market indices," said one investor.

The offering is the latest in a series of "jumbo" bonds by US and European telecoms companies. Apart from WorldCom, which issued its bond to finance its takeover of MCI, Sprint, another US telecoms company, also issued a bond of more than $5bn last year.

"The market seems to have limitless appetite for telecom debt," said one banker. "But the risks are limited by the fact that this is driven by consolidation rather than by over-expansion in the telecoms sector."

In Europe, Olivetti, the Italian telecoms company, last week said it would break all records with a $15bn floating rate bond if it succeeded in its $58bn bid for Telecom Italia.

Likewise, Vodafone, the UK mobile phone company, is planning to refinance a large chunk of its recently launched $13bn syndicated loan used to finance its takeover of AirTouch, the US telecoms company.

Volumes in the US corporate bond markets have been lacklustre in the past three weeks with several companies, including Sony, delaying planned bond issues in advance of the AT&T offering. In addition, the US market has been quiet in light of recent weakness in the US Treasury bond market owing to periodic concerns about US inflation.

In contrast, the European corporate bond market has never been more active, with a number of companies issuing debut bonds to take advantage of the launch of the single currency. Even US companies, such as Ford and Philip Morris, have launched or are planning to launch bonds denominated in euros. Yesterday British American Tobacco launched its second euro-denominated bond in a €1bn ($1.09bn) offering.

AT&T, which is expected to price the bond offering today or tomorrow, said it would be split into tranches of $1.75bn for the five-year portion, $2.5bn for the 10-year and $2.7bn for the 30-year bond.

BANCA DI ROMA AND BANCA COMMERCIALE ITALIANA SHARES CLIMB ON TIE-UP EXPECTATIONS

Italian banks set to back mergers

By Paul Betts in Milan

UniCredito's CEO Alessandro Profumo, left, and president Lucio Rondelli in Milan yesterday AP

Banca di Roma indicated yesterday it was likely to approve a tie-up with San Paolo-IMI, Italy's largest banking group, to create a business worth about €29.2bn ($32.1bn).

But Banca Commerciale Italiana appeared to be hesitating before responding to UniCredito Italiano's offer to combine the groups into a new enlarged bank called Eurobanca.

The two bids, announced on Sunday, were hailed by politicians and businessmen as a sign that Italy was finally adapting its financial system to global market forces and the European single market.

The shares of Banca di Roma and BCI yesterday rose sharply in Milan while those of the bidders, San Paolo-IMI and UniCredito, fell equally sharply. Analysts said this showed the market expected the two mergers to go ahead.

Banca di Roma shares surged 7.31 per cent while BCI shares rose 4.86 per cent. In contrast, UniCredito and San Paolo-IMI shares both fell about 5 per cent.

Alessandro Profumo and Lucio Rondelli, the chief executive and president of UniCredito, unveiled the bank's bid for BCI at meetings in Milan yesterday. It is offering to exchange 8 of its shares for 5 BCI shares to create a business capitalised at about €38.1bn.

San Paolo-IMI is offering 2 of its shares for 19 Banca di Roma shares. Both UniCredito and San Paolo-IMI yesterday described their offers as "friendly". They have been under pressure from the Bank of Italy, the central bank, to avoid launching hostile bids.

Milan bankers said they expected both mergers to go ahead, although they suggested the decision was likely to be more difficult for BCI. The Milan bank's ties with Mediobanca, the investment bank that had unsuccessfully sought to combine BCI with Banca di Roma, as well as Assicurazioni Generali, Italy's largest insurer, and Commerzbank of Germany, were regarded as possible obstacles.

However, other large BCI shareholders, such as Deutsche Bank, have indicated they favoured a merger.

Banca di Roma said its board would meet tomorrow to consider San Paolo-IMI's offer.

ABN Amro, the Dutch banking group that recently acquired a 8.76 per cent stake in the Rome bank, yesterday said it viewed the proposal "with interest".

Toro, the insurance company controlled by the Fiat automotive group with an 8.55 per cent stake in the bank, said it also favoured the merger.

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Gucci to look at LVMH offer of $81 a share

By Alice Rawsthorn

Gucci, the embattled Italian fashion company, is to enter discussions with LVMH over an $81-a-share cash offer from the French luxury goods group that values Gucci at $8bn.

LVMH, which paid $1.4bn this year to secretly amass a 34.4 per cent stake in Gucci, tabled its $81 offer on Sunday night. The bid followed an initial offer of $85 a share, forced from LVMH on Friday by the news that Gucci had negotiated a deal for Pinault-Printemps-Redoute (PPR), the French retail group, to acquire a 40 per cent holding for $2.9bn.

The new bid includes the shares issued to PPR, which is controlled by François Pinault, a former ally of Bernard Arnault, LVMH's chairman, which were excluded from last week's offer.

Gucci's shares soared by €6.70, or 10 per cent, to €73.30 in Amsterdam yesterday after the board announced it had received LVMH's second offer and would give it "serious consideration".

After the stock market closed, a Dutch court ruled that Gucci must consider the $81 offer. It also insisted that this should be done by Gucci's original board, without the additional nominee directors PPR was entitled to appoint under the terms of Friday's deal.

The court, which was considering a case initiated by LVMH, agreed to unfreeze the voting rights on the French group's existing 20m Gucci shares, which had been suspended by a previous ruling. The votes on the equivalent number of shares issued by Gucci to employees last month will remain frozen.

The court rejected LVMH's claim that an independent administrator be appointed to run Gucci and to conduct negotiations over its offer. It also dismissed a request that the PPR deal be nullified.

Instead, PPR will be free to decide whether to accept LVMH's $81 offer. LVMH's offer is conditional on its ending up with more than 50 per cent of Gucci's equity.

PPR's shares fell €6, or 4 per cent, to €144 in Paris yesterday as speculation mounted that it might try to outbid LVMH. Shares in LVMH slipped marginally by €0.20 to €234 in Paris.

In another deal announced on Friday, Mr Pinault acquired the beauty business of Sanofi, the French pharmaceuticals group, for FFr6bn ($1bn, €900m) through Artemis, one of his private companies. He also struck an informal agreement to sell the Sanofi beauty brands to Gucci for the same amount.

LVMH, which expressed interest in the Sanofi acquisition last autumn but failed to agree terms, has said it will not proceed with the transaction if it secures control of Gucci. Under Dutch stock market rules, Gucci has until next Sunday to decide whether to recommend acceptance of LVMH's $81 offer.

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TELECOMS LINK OF ATLANTIC COMPANIES BRUNCOR, ISLAND TELECOM, MTT AND NEWTEL WILL CREATE $1.84BN GROUP

Four Canadian carriers confirm merger plan

By Scott Morrison in Toronto

Canada's four Atlantic telephone companies are to merge, forming the country's third largest carrier with a market capitalisation of C$2.8bn (US$1.84bn).

The widely anticipated merger, announced yesterday, was seen as a response to the increasing pace of consolidation in the Canadian telecommunications industry.

Bruncor, Island Telecom, Maritime Telegraph & Telephone and NewTel Enterprises *said they could strengthen revenue growth, cut costs and increase their competitiveness by combining resources.*

The new company, AtlanticCo, would serve the provinces of New Brunswick, *Prince* Edward Island, Nova Scotia and Newfoundland, with combined annual revenues of C$1.7bn and earnings of C$172m. The companies, which recently developed and installed joint billing and administrative systems, estimated they would save C$130m annually *by the end* of the second year.

Analysts said that, in addition to improving operational efficiencies, combining the companies would increase the liquidity of the group's shares and attract institutional investors, which have largely avoided shares of the small carriers.

"AtlanticCo will be greater than the sum of its parts. This merger builds upon our long history of co-operation and represents a natural evolution," said Stephen Wetmore, president and chief executive of NewTel, who was to assume the same responsibilities at the new company.

BCE, Canada's largest telecommunications company and a shareholder in each of the four companies, had already said it would support the merger, which is expected to close at the end of May. BCE would hold almost 42 per cent of the combined company and be a strategic partner through its Bell Canada subsidiary.

Under *terms of* the transaction, each common share of MT&T would be exchanged for 1.667 AtlanticCo common shares. Each Bruncor common share would be worth 1.011 shares in the new company. NewTel common shares would be swapped for 1.567 AtlanticCo common shares, while Island Telecom shares would be exchanged on a 1-for-1 basis.

Lino Celeste, Bruncor chairman, would be chairman of AtlanticCo. AtlanticCo's main rivals would be carriers such as AT&T Canada and Sprint Canada, which have been competing in the long-distance market and are now moving to enter local markets.

The new group said it would co-operate with Bell Nexxia, the BCE-held broadband network, to provide internet protocol services in the region. It would also expand its information technologies business with the telecoms, oil and gas sectors worldwide.

Chevron chief gets $150,000 pay rise

Chevron, the US oil group, gave Kenneth Derr, its chair*man and chief executive*, a $150,000 pay rise last year as the company's net income reached a record $3.3bn in 1997, the company said in a federal regulatory filing yesterday, agencies report from New York.

The 12.5 per cent pay increase raised Mr Derr's annual salary to $1.35m, according to a proxy statement filed with the Securities and Exchange Commission. But Chevron cut his 1998 bonus by 25 per cent to $1.185m from $1.595m in 1997, reflecting lower financial results last year, it said.

The 1998 earnings of Chevron, *the third largest US oil* company in terms of market value, took a hit from plunging crude oil prices.

Net income in 1997 was the highest in Chevron's history. But after a drop in crude oil prices of about 30 per cent last year, the company's net income fell 58.9 per cent to $1.3bn in 1998.

The drop in 1998 net income reflects a special charge of $637m to recognise potential losses arising from an Oklahoma Supreme Court opinion against the company in long-standing litigation with Cities Service of Tulsa, now known as Oxy USA, part of Occidental Petroleum.

In 1998, Mr Derr received a grant of options to buy *110,000 Chevron shares at* $79.125 each; in 1997, he received a grant to buy 110,000 shares at $80.938 each, and 15,000 shares at $72.125 each. Also in 1998, Mr Derr received about $1.74m in payouts from a previous grant of performance units, a Chevron incentive plan linked to total shareholder returns relative to a peer group over a three-year period. In 1997, he received a $1.87m payout from the programme.

Comcast joins the new elite

Cable group's planned merger with MediaOne will spur more deals in the rapidly consolidating industry, writes **Christopher Parkes**

Less than a week after Leo Hindery, president of AT&T's new broadband and internet division, said consolidation of the US cable industry was in its *final stages*. Comcast and MediaOne have made a critical endgame move.

Their plan to merge to form the third biggest cable group, with 11m customers, is likely to spur even more deals in a year which has seen about a dozen smaller operators swallowed up.

It also marks a milestone in the evolution of the 40-year-old industry from a fragmented supplier of television programmes to a provider of electronic services: with telephony and internet access first into the pipeline.

The AT&T telecommunications group put down the *first marker with its recently* closed acquisition of Tele-Communications Inc, and was in the middle of separate joint-venture negotiations when potential partners Comcast and MediaOne *decided they could strike* a better bargain together.

According to Brian Roberts, Comcast president, the combined company would be better placed to have "more meaningful" talks on telephony. It would also be big enough, he *suggested, to offer telephone* services on its own.

'The merger will strengthen the group's hand in dealings with AT&T'

The merger will certainly strengthen the group's hand in dealings with AT&T, and may even simplify the process for the telecoms group, which now has cable access to a third of US homes and aims to double that in the short term. The Comcast combination is especially alluring because 80 per cent of its subscribers are located in the top 20 US markets.

But the immediate effect will be to promote Comcast to membership of a new elite *group in the cable business*, with roughly the same number of subscribers as its peers. Time Warner is leader with 12.6m, followed by AT&T/TCI with 12.5m.

Their nearest rivals include Adelphia, an also-ran a year ago, which has acquired systems enough to brings its customer base to 4.7m, followed by Cox with 3.8m. Next in line is Charter Communications, a new company controlled by Paul Allen, co-founder of Microsoft, which from a standing start has spent $11bn accumulating 3.4m subscribers.

Like AT&T, Mr Allen has *publicly announced* he wants more, and with cable stocks surging in anticipation, he is reported to be contemplating an initial public offering of Charter shares to generate the currency for stock deals.

According to Mr Roberts, in addition to the extra muscle for dealing with AT&T or *other telephony companies*, the enlarged Comcast will also be able to exert more influence over regulatory affairs and the development of technology needed to advance cable's evolution.

It will also be better placed *to round up the financing* needed to fulfil the dreams of a one-pipe supplier for a wide range of services. Since 1996, the entire cable industry has spent more than $20bn on upgrading its systems with the fibre-optics and digital compression equipment needed to fulfil promises of instant access.

By the end of this year, Mr Roberts said, 70 per cent of the new company's system would be fitted with high-capacity, two-way cable.

Growth of US spending on subscription video services*

	Basic services	Premium channels	Pay-per-view	Advertising	Total
1997 expenditures ($m)	22,402	6,766	1,424	7,860	38,452
1992-1997 compound annual growth (%)	10.2	5.5	28.7	18.7	11.1
1997-2002 projected compound annual growth (%)	11.8	4.8	10.7	15.9	11.6
2002 projected expenditures ($m)	39,080	8,545	2,362	16,450	66,437

* Includes cable, satellite and wireless cable

Sources: Veronis; Suhler & Associates; Wilkofsky Gruen Associates; Paul Kagan Associates

Acquisitive Vivendi may list in US

By David Owen in Paris and Richard Waters in New York

Vivendi, the French communications and utilities group, yesterday said it would consider seeking a US listing within three to five years, and that it would not rule out any option at this stage, including offering shares in a *separate water* business.

Speaking as the company announced its fourth big North American acquisition in less than six months, Jean-Marie Messier, Vivendi chairman, said US investors hold 12 per cent of the company's shares, up from 3 per cent three years ago, and the company's *bigger presence* in the US should boost this proportion.

Vivendi yesterday said it had agreed to buy US Filter, a water treatment equipment company, for $6.2bn in cash. The expansion-minded company is to offer $31.50 a share for the Palm Springs-based company, and *described* the move as the biggest French acquisition made in the US.

US Filter is by far the largest private US water company, having mounted a spate of about 100 acquisitions during the 1990s in an effort to dominate a highly fragmented market. However, its shares fell heavily *from a peak of more than* $40 in 1997, touching a low of $12 *last year before partially* recovering.

The deal, which was yesterday welcomed by analysts, is to be financed by a €3bn ($3.3bn) capital increase and a €2bn convertible bond issue.

While the acquisition will eat into Vivendi's financial flexibility, Mr Messier said *the French company had* earmarked another €4bn for expansion over the next three years.

Part of that would be invested in the US, where the company plans to compete aggressively for business as municipal authorities *around* the country explore ways of privatising *their water* treatment business.

The deal, approved by the boards of both companies, will *create* what the companies described as the "undisputed world leader" in water-related businesses, almost doubling to about $12bn the annual turnover of Vivendi's Générale des Eaux water treatment division.

Mr Messier has reshaped, renamed and rehoused the Vivendi group remarkably quickly since arriving at the helm in 1996. He said the two companies' activities were "very complementary".

"Vivendi and US Filter have both been targeting the growing worldwide water market, but from different starting points and with an emphasis on different types of client," he said.

"What we recognised is that we share a vision of a *full-service*, global water enterprise."

Vivendi said the deal would add to its earnings per share this year and would do so "very significantly" from 2000. It said the price it was offering represented a premium of 26 per cent to the average *US Filter* share price over the past 30 days.

The French company, which has gained a reputation for acquisitiveness as its young chairman has sought to reshape it as a communications and environmental services powerhouse, has made a string of high-profile US purchases in recent months.

Last November, it substantially increased its North American power production capacity by acquiring 23 north-east US power plants *in a deal worth* $1.7bn. Founded in 1990, US Filter has lifted sales to about $5bn this year as a result of organic growth and strategic acquisitions of companies such as Memtec, Culligan and Kinetics.

Broadcast.com shares leap on takeover rumours

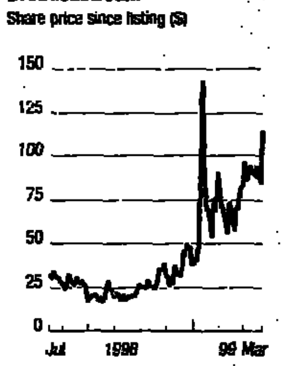
By Roger Taylor in San Francisco

Shares in Broadcast.com, the internet broadcasting group, jumped 33 per cent yesterday morning to $113⅞ on reports that the company was in takeover discussions.

BusinessWeek Online named Yahoo!, the leading *internet portal, as the most* likely buyer for Broadcast.com, although other companies, such as America Online and NBC, were also said to be interested.

The report said Yahoo! and Broadcast.com had met recently to discuss a possible deal.

Yahoo! has been using its own high-priced stock to buy additional services. Earlier this year it agreed the $4.7bn purchase of Geocities, the internet community site.



Source: Datastream/ICV

Dallas-based Broadcast.com transmits the programmes of 385 radio stations over the internet and has a number of other services such as TV broadcasts and a "CD Jukebox" that *transmits music on demand.*

Among its most profitable ventures is an agreement with the Nasdaq stock market to broadcast corporate earnings announcements over the internet.

Since coming to market last year, Broadcast.com has seen its share price climb from under $20 to more than $144 in January before falling back to about $100. After yesterday's jump the company *is worth close to $4bn.*

The quality of online broadcasting is patchy at the moment because most internet connections cannot carry data fast enough.

However, quality will become less of an issue as telephone companies and cable TV operators are now starting to offer cheap broadband internet connections capable of transmitting high-*quality video and audio.*

Pension fund in Lubrizol fight

By Daniel Bögler in New York

TIAA-Cref, the world's largest pension provider, is urging fellow shareholders of Lubrizol to join it in voting against the US speciality chemical company's anti-takeover provisions.

TIAA-Cref said it would use Lubrizol's annual meeting *on April 26 to oppose the* company's so-called "dead hand" poison pill – a takeover defence that can only be removed by the current directors.

Peter Clapman, the pension fund's senior vice president and head of corporate governance, stated: "Lubrizol's directors have wrongfully usurped shareholder power for themselves."

He pointed out that dead *hand poison pills* were illegal in Delaware, where most US companies are incorporated.

To underline the extent of its opposition, TIAA-Cref also intends to vote against the board's director nominees at the meeting.

The pension fund also noted that Lubrizol, which has been one of the US stock market's worst performers in recent years, made vigorous efforts to block its resolutions.

Meanwhile, TIAA-Cref is also proposing to vote against a similar dead hand poison pill at Bergen Brunswig, a pharmaceutical distributor.

Mr Clapman said, however, that most other companies whose dead hand poison pills have been criticised by TIAA-Cref have voluntarily amended them.

NEWS DIGEST

ALUMINIUM

Alcan to shut smelter ahead of schedule

Alcan Aluminium, the Canadian aluminium producer, said yesterday it will shut down its Isle-Maligne Works smelter in December, nine months ahead of schedule. The decision, triggered by low aluminium prices and the rising world inventory, will reduce Alcan's primary metal production by 90,000 tonnes over the next 18 months.

Alcan had originally planned to shut the Quebec smelter permanently in September 2000, when production will begin at its new Alma facility in Quebec, which is expected to be one of the world's lowest cost smelters. The company warned earlier this month that profits in the first quarter of 1999 would be down 50 to 60 per cent from the fourth quarter of 1998. **Edward Alden, Toronto**

Commodities, Page 34

FARM EQUIPMENT

Case plans Russia network

Case, the US manufacturer of farm and construction equipment, intends to establish a network of "machine technological stations" in Russia, backed up by a parts and service system, under a broad agreement with Russian government officials to help develop the nation's farm sector.

Case said the deal covered the supply and manufacture of equipment, as well as support services, but gave few details beyond saying that it planned to "work towards" joint venture arrangements in Russia with local manufacturers.

The US group already has about 5,000 machines operating throughout the former Soviet Union, with five distributors/sales representatives in Russia and four joint ventures in Uzbekistan. However, like many companies operating in Russia, it has not always found conditions easy: last year, it was forced to delay the sale of combines to a regional agricultural ministry when financing arrangements fell through. **Nikki Tait, Chicago**

INTERNET

Lycos in Korean venture

Lycos, the US internet portal company, has teamed up with Mirae, a South Korea-based software company, to form Lycos Korea providing local versions of Lycos services. Both partners will own 50 per cent of the venture, Lycos said yesterday, adding that the Korean sites will launch later this year. Other financial terms of the deal were not disclosed. **Reuters, New York**

SEMICONDUCTORS

Intel targets low-cost PCs

Intel, the world's largest semiconductor company, has unveiled a new 433 Mhz microprocessor, the fastest computer chip it sells to run on low-cost personal computers. "Computers with the new Intel Celeron processor give consumers leading value PC performance and a great way to get on the internet for around $1,000," Paul Otellini, an Intel executive vice-president, said yesterday. Intel has been involved in a price war with rival Advanced Micro Devices in the market for computer chips designed for inexpensive personal computers. **Reuters, New York**

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 23.03.99 / Final Prices for Trading on 23.02.99

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	23.87	24.74	25.06	0.73
0100	23.87	24.74	25.06	0.73
0130	23.87	24.74	25.06	0.73
0200	23.87	24.74	25.06	0.73
0230	23.87	24.74	25.06	0.73
0300	23.87	33.11	33.42	0.73
0330	23.87	33.11	33.42	0.73
0400	21.52	24.74	25.06	0.73
0430	19.82	24.74	25.06	0.73
0500	10.00	24.74	25.06	0.73
0530	9.29	18.62	18.93	0.73
0600	21.20	18.62	18.93	0.73
0630	21.20	19.14	19.45	0.73
0700	21.51	19.14	19.45	0.73
0730	21.52	20.00	20.31	0.73
0800	21.53	20.00	20.31	0.73
0830	25.44	41.50	41.81	0.73
0900	65.17	53.33	53.64	0.73
0930	65.24	53.33	53.64	0.73
1000	31.80	53.33	53.64	0.73
1030	28.64	53.33	53.64	0.73
1100	28.88	47.80	48.11	0.73
1130	31.82	63.33	53.64	0.73
1200	36.61	63.40	63.71	0.73
1230	36.55	63.33	63.71	0.73
1300	29.68	63.39	63.71	0.73
1330	25.47	63.39	63.70	0.73
1400	28.03	36.06	36.37	0.73
1430	26.02	41.50	41.81	0.73
1500	26.01	52.77	53.08	0.73
1530	26.00	36.06	36.37	0.73
1600	23.68	36.06	36.37	0.73
1630	26.05	36.06	36.37	0.73
1700	30.21	47.98	48.29	0.73
1730	36.56	48.23	48.58	0.73
1800	36.69	58.07	59.48	0.73
1830	39.38	64.20	64.64	0.73
1900	46.83	64.14	64.56	0.73
1930	46.97	63.94	64.30	0.73
2000	45.50	57.81	58.13	0.73
2030	43.33	54.12	54.43	0.73
2100	31.18	53.33	53.64	0.73
2130	19.75	53.32	53.64	0.73
2200	19.74	31.69	32.01	0.73
2230	21.51	26.07	26.38	0.73
2300	21.51	26.07	26.38	0.73
2330	23.55	26.07	26.38	0.73
2400	23.55	9.29	9.29	0.00

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.88/MWh becomes 1.688p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of optimising the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 4798 between 8.30am and 5.15pm Monday to Friday.
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To the Noteholders of
SUNSHINE PRECIOUS METALS, INC.
U.S. $30,000,000
8 percent. Senior Exchangeable Notes due 2000
(the "Notes")

Pursuant to Schedule 5 of the Trust Deed dated 21 March, 1996 among Sunshine Precious Metals, Inc., (the "Company"), Sunshine Mining and Refining Company (the "SSC") and Marine Midland Bank (the "Trustee"), the Company hereby gives notice that in accordance with Section 6(B) of the Terms and Conditions of the Notes, it is required to make a one time additional payment on the Notes equal to 22.5% (the "Additional Amount") of the principal amount of Notes held by such Noteholder. Said payment will be made on 26 March, 1999 in the form of common stock to the holders of record on 19 March, 1999

By Marine Midland Bank as Trustee

Dated 23 March, 1999

A/S Eksportfinans
(Incorporated in the Kingdom of Norway with limited liability)

US$100,000,000
Senior/Subordinated Notes due 2002

Notice is hereby given that the Rate of Interest has been fixed at 5.125% and that the interest payable on the relevant Interest Payment Date September 23, 1999 against Coupon No. 14 in respect of $1,000 Nominal of the Notes will be $26.19 in respect of $10,000 Nominal of the Notes will be $261.94 and in respect of $100,000 Nominal of *the Notes will be $2,691.44.*

Global Agency and Trust Services, Citibank, N.A. London
March 23, 1999

CITIBANK

Midland Bank plc
(Incorporated with limited liability in England)

US$500,000,000 Undated Floating Rate Primary Capital Notes

The Rate of interest has been fixed at 5.3125% p.a. The interest payable on the relevant *Interest Payment* Date September 24, 1999 against coupon No. 28 in respect of *US$10,000* nominal of the Notes will be US$271.53.

Global Agency and Trust Services, Citibank, N.A. London
March 29, 1999

CITIBANK

These securities having been previously sold, this announcement appears as a matter of record only.

€1,293,400,000

United Pan-Europe Communications N.V.

Global Offering of
44,600,000 Ordinary Shares

in the form of Ordinary Shares or American Depositary Shares

Joint Global Coordinators

Goldman Sachs International **Morgan Stanley Dean Witter**

International Offering

25,850,000 Ordinary Shares

of which 2,282,417 Ordinary Shares were sold to retail investors in The Netherlands.
The remaining portion of the offering was offered outside of the United States by the undersigned.

Goldman Sachs International **Morgan Stanley Dean Witter**

MeesPierson N.V. **Paribas**

Cazenove & Co. **Deutsche Bank**

Donaldson, Lufkin & Jenrette **Salomon Smith Barney International**

United States Offering

18,750,000 Ordinary Shares

of which 10,157,750 Ordinary Shares were sold to Microsoft Corporation.
The remaining portion of the offering was offered in the United States by the undersigned.

Goldman, Sachs & Co.

Morgan Stanley Dean Witter

Donaldson, Lufkin & Jenrette

Cazenove Inc. **Deutsche Bank Securities**

MeesPierson N.V. **Paribas** **Salomon Smith Barney**

March 1999

PROPERTY FINANCING PROBLEMS AND GLUT OF OFFICE SPACE BRING NEW HOLD-UP TO CONSTRUCTION OF SHANGHAI OFFICE BLOCK

Mori delays work on world's tallest tower

By James Harding in Shanghai

Mori, the Japanese property developer, has again delayed construction of what is planned to be the world's tallest skyscraper.

The completion date for the Shanghai World Financial Centre, originally in 2001, has been pushed back to 2005.

The latest delay to the proposed 94-storey office tower reflects developers' reservations about real estate investment in Shanghai's oversupplied market, as well as financing problems that have put strains on the Japanese company.

The Shanghai World Financial Centre confirmed the postponement of further construction on the site, which has been more or less idle since the foundations were completed last year.

The company has explained that it is making design changes to offer occupants the highest standards in modern offices.

Last year Mori said the next phase of construction was being delayed for six months.

The need for additional financing and the glut of office space on the market also had taken its toll on the timetable, Shanghai state-owned media reported yesterday.

Construction of the 460m high building began in August 1997 and was originally due to cost Y75bn ($640m).

But yesterday's report suggested the restructuring of Japan's banking industry had resulted in a contraction of Japanese banking operations in China and complicated financing of the project. The company is understood to be seeking partners to help fund construction.

Minoru Mori, president, has said the main shareholders in the Shanghai World Financial Centre venture remain the same although several Japanese banks have restructured.

Shanghai's real estate market has been in steep decline since 1996. Last year alone, office rentals fell by about 40 per cent in Pudong, the business district under development in eastern Shanghai and the site of the Shanghai World Financial Centre. About 55 per cent of office space in the financial district is vacant.

Richard Ellis, the property consultants, noted in a recent market review that "the dimness of short-term prospects for the Shanghai office market has resulted in numerous developers adopting a tactic of seeking to delay their projects until such time as the market begins to show signs of making a turnaround".

The company forecasts that construction delays will continue for at least one to two years.

Nissan chiefs at crossroads with long, weary journey ahead

Alexandra Harney examines how doubts about the alliance with Renault are growing among analysts and industry observers

At Nissan headquarters in Tokyo last week, the mood was grim. After weeks of board meetings and unrelenting media attention surrounding the bid by Renault to buy 35 per cent of the company, Nissan executives are weary and ambivalent, according to people close to the situation.

"They look dejected," one observer noted.

Nissan has found itself at a strategic crossroads. In the 10 days since talks with DaimlerChrysler over an equity tie-up fell through, shares in the carmaker have fluctuated madly, falling 9.3 per cent during the days since Renault made its bid official.

Analysts and industry observers say that concerns about the potential difficulties in an alliance with the French carmaker have spread in the market and among Nissan executives, sending the shares down Y1 to Y429 from a high of Y473 last week.

This cluster of issues – about Renault's fitness as a strategic partner, the loss of face in selling out to a foreign carmaker, and the differences in corporate culture – seem likely to cloud a partnership between the two carmakers.

The fissures among Nissan executives are already wide enough to prompt Yoshifumi Tsuji, Nissan chairman, to announce his resignation last week if the company agrees a capital alliance with Renault.

"There are some executives who watch how Hanawa (Yoshikazu Hanawa, Nissan president) is prepared to sell out without any regard to how it looks, and are very displeased. Surely there must be another way to solve Nissan's problems," says a former Nissan executive.

Industry executives point to Renault's history of labour troubles, its problems in the US market, and the influence of the French government, which holds a 44.2 per cent stake in the carmaker, as reasons for concern.

French unions are already speculating that Carlos Ghosn, Renault's executive vice-president, known in France as "le cost-killer", will be parachuted in as Nissan Motor's chief operating officer.

Although Renault recorded a 63 per cent increase in net earnings last year, with profits rising to FFr8.85bn (€1.35bn, $1.47bn) on turnover up 17.3 per cent to FFr243.9bn, its cars have sold poorly in Japan. Worse, the French government is viewed as protectionist for having limited imports of Japanese cars in recent years.

Some industry officials see surrender into the arms of such a partner as a fall from grace for Nissan and the entire automotive industry. One former official from the Ministry of International Trade and Industry called a Renault-Nissan alliance "a national disgrace".

Set to resign: Yoshifumi Tsuji, Nissan chairman AP

But the prevailing view is that Nissan has no other choice.

Kaoru Yosano, Miti minister, has publicly said he would "welcome" the deal as part of the globalisation of Japanese industry.

Fuji Bank and the Industrial Bank of Japan, the carmaker's two main lenders, have also said they would back an alliance.

The offer of a capital injection from Renault, believed to be about Y500bn ($4.27bn), relieves some of the pressure on the Japanese government and banks to support Nissan financially.

The carmaker, which is expecting net losses of Y30bn on sales of Y6,400bn in the fiscal year ending this month, has secured a commitment line from the Japan Development Bank, a government-backed institution, worth Y100bn and another Y550bn line from a coalition of 11 banks led by the Industrial Bank of Japan and Fuji Bank to support its short-term funding needs.

The Japanese government would be hard pressed to find additional money to loan Nissan, as the US government did in the 1980s when it provided Chrysler with loan guarantees during a period of financial distress.

"The government needs a lot of money to rescue the banking industry. There is no money left to help Nissan," says one industry executive.

But even if the funding problems are eased, the thorny management issues remain. Renault's offer for a 35 per cent equity stake is even larger than the 33.4 per cent that Ford holds in Mazda. This shareholding, essentially a controlling stake, gives Ford the right to veto decisions made by the Mazda board of directors. Ford's move, unprecedented in the Japanese automotive industry, to appoint the president and chief financial officer at Mazda is widely viewed as the reason for Mazda's turnaround in recent years.

Industry analysts caution that the Ford-Mazda alliance is difficult to compare with a Renault-Nissan tie-up because the two companies built their relationship over nearly 20 years. Ford first bought a 25 per cent equity stake in Mazda in 1979, and raised it to 33.4 per cent in 1996.

"When Ford managers first joined Mazda, there was some feeling of outsiderness and they did not get along initially, but they were able to build a consensus within the company. Now, with Nissan and Renault, to really do the type of drastic restructuring that needs to be done, the mutual sacrifices will be much greater," says Chikao Masuzawa, analyst at ING Barings.

There is little chance that Nissan, which is already struggling with internal disputes about the alliance itself, would allow a Renault executive to take over as president.

But with several executives from the French carmaker likely to join Nissan's 40-strong board, the question is whether Renault, which has just emerged from an intensive restructuring, can produce the same results in Japan.

NEWS DIGEST

INDONESIA

Shareholders approve PT Bank Lippo changes

The shareholders of PT Bank Lippo, one of Indonesia's largest private banks, yesterday approved the government's recapitalisation plan which will drastically alter the shareholding of the bank. At an extraordinary general meeting, 83 per cent of the shareholders, who account for 3.5bn shares of Bank Lippo's 4.2bn shares, gave the go-ahead for the plan but no details were provided.

Roy Edutirtadji, the bank's commissioner and vice president, told reporters after the five minute meeting that another EGM would be held on April 9 at which further details of the recapitalisation plan would be outlined.

Banking analysts said that once the recapitalisation plan was completed, the shareholders, including the politically well-connected Riady family, would be left with about a 20 per cent stake while the government would end up as the majority shareholder.

The government has indicated, however, that over a period of two to three years, it would sell its stake in the recapitalised banks either to foreign investors or back to the existing shareholders.

SK Zainuddin, Jakarta

MALAYSIA

Electricity deals lift YTL

YTL Corporation, the politically well-connected Malaysian construction and power group, reported its net profit rose 35 per cent year-on-year to M$235m (US$61.8m) for the six months to December 31. Profits were helped by lucrative long-term deals to supply electricity to Tenaga Nasional, the state-controlled power utility, and investment income, according to analysts. The company's cash pile is estimated at more than M$1bn.

Operating profit rose 9.5 per cent to M$382m. Sales turnover fell 11 per cent to M$1.02bn as a result of a depressed property and ready-mixed concrete market.

For the full year to June 30, the net profit could be about M$360m, compared with M$283m the previous year, according to analysts. Shares of the Chinese family-held concern, which is acquiring a majority stake in troubled Taiping Consolidated, the property and hotel group, settled down 10 Malaysian cents at M$4.60 yesterday in a sluggish market.

TJ Tan, Kuala Lumpur

AUSTRALIA

Rolling stock group up for sale

Howard Smith, the Australian hardware and towage group, is looking to sell its ailing railway rolling stock subsidiary A. Goninan & Co. Ken Moss, managing director, said: "Goninan's growth prospects would benefit from an owner better placed than Howard Smith is to promote and support it in the global market". Goninan, which celebrates its centenary this year, has a A$890m (US$561m) order book, consisting mainly of longer-term railway maintenance and modernisation contracts.

Howard Smith will probably raise at least A$350m from the sale, with local groups such as the recently-listed Smorgon Steel and Transfield possible buyers.

Russell Baker, Sydney

3Com struggles to reverse its decline

The group faces some tough decisions to effect a turnround, reports **Roger Taylor**

One of the best-known names in the networking industry, is in a bind. After a profits warning earlier this month and a share price that has fallen about 70 per cent over the past two years, 3Com is under pressure to restructure – but there are no obvious solutions for the sprawling group with its diverse product range.

The company has a lot of good businesses under its control, ranging from the popular Palm handheld computing division to successful operations in the new and fast-growing cable modem market.

But these are dwarfed by its activities in lower-growth, lower-margin businesses.

3Com's biggest markets are analog modems, network interface cards – which connect PCs to corporate networks – and hubs, relatively simple devices for linking PCs.

These are the areas where 3Com is market leader, but they are also the slowest growing parts of the networking equipment market.

Merrill Lynch, for example, forecasts the market for network interface cards to rise 5 per cent this year, while revenues from hubs are expected to fall 20 per cent. That compares with growth rates of between 20 per cent and 50 per cent for most of the rest of the networking industry.

At the start of this month 3Com reported that a slowdown in enterprise sales in the US and Latin America would cut earnings per share for the second quarter to about 23 cents, compared with the 36 cents that analysts had been expecting.

That news helped end a brief revival in 3Com's share price, which has been on a downward trend for more than two years. From a high of almost $80 at the end of 1997, the shares are now languishing at $24, having almost halved since the start of this year.

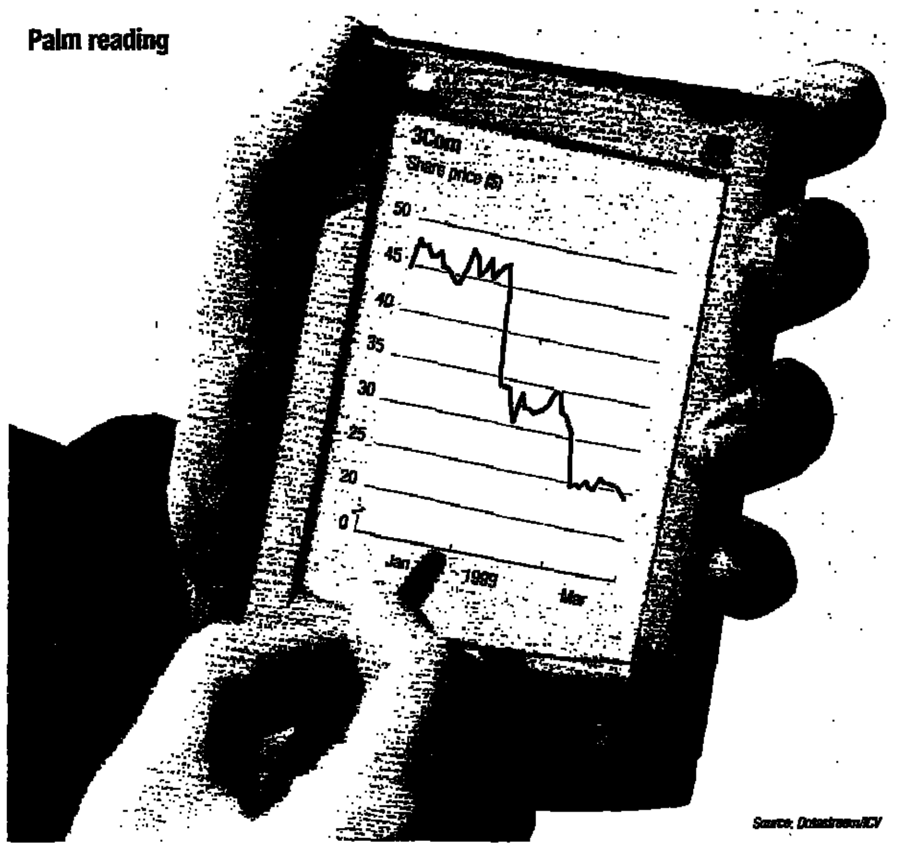
The company has long been rumoured as a takeover target, but its diverse range of operations make it an awkward business for anyone else to buy. There is a growing consensus among analysts that the company needs to reform itself.

A first step would be to pull out of the market for networking equipment sold to telephone companies and internet service providers.

3Com has failed to make much headway in this sector, where it faces larger, better funded rivals such as Cisco Systems, Lucent Technologies and Nortel Networks.

Luke Szymczak, analyst with Prudential Securities, regards this move as essential: "There's no choice – it is a very competitive market, the business requires deep pockets, it would be better off in other hands." He says this is now clearly on the agenda, although it has taken 3Com a long time to come to that conclusion.

Palm reading



Source: Datastream/ICV

There are plenty of likely buyers, with European telecoms equipment makers such as Siemens of Germany, Ericsson of Sweden and the UK's GEC, all looking to expand their data networking capabilities.

Siemens, that has a number of alliances with 3Com, is seen by some as the natural buyer.

Hans Schwarz, the newly appointed head of the 3Com-Siemens joint venture, said last week that the two companies were still discussing how they could further their relationship. Some would like to see 3Com merge its telecoms-related business into Siemens's new Unisphere division, which is focusing on the same market.

Other analysts believe 3Com should go even further and pare operations back to its areas of greatest strength – hand-held computing and networking for the home and small office.

Maribel Lopez, an analyst with Forrester, the industry research group, believes this might be the best long-term strategy.

She suggests 3Com should consider moving out of the market for large business customers and instead focus on personal, home and small business customers. "It would make a very nice stepped down Palms-to-home networking business," she says.

But the risk in that strategy is that the market could come to view 3Com as more of a consumer products group than a technology leader – and that would probably do little to boost its share price.

To date, however, 3Com shows little sign of such radical thinking. Its proposed remedies are to cut investment in its lower margin, lower growth operations and focus investment on its higher growth areas.

But with the high-growth areas accounting for only about 10 per cent of revenues, it could take too long for this policy to have an impact on the overall growth rate of the company.

It will need a more drastic approach to bring about any quick reversal in the decline of 3Com's share price.

BANKING US GROUP UNVEILS WIDE-RANGING EXPANSION PLAN

Bank of America to build European arm

By Tracy Corrigan in New York

Bank of America's securities arm is about to emerge from post-merger consolidation with a new name and a new sense of mission. As well as expanding its US securities business, the group also plans to build a European business based in London.

"We think we will be opening an investment banking activity next year in London," said Carter McClelland, co-head of investment banking.

The group will have a high yield, equities and investment banking presence totalling about 300 staff, Mr McClelland said.

Bank of America, which merged with Nationsbank last year, is the latest US commercial bank to attempt to challenge the US securities firm's dominance of the investment banking business, though critics say it would require a big leap for the bank to make a significant impact.

Its securities business, known as Nationsbanc Montgomery Securities, is to be renamed Banc of America Securities. It will include the equities and investment banking business of Montgomery, the hi-tech specialist firm bought by Nationsbank in 1997, and the fixed income business of Nationsbanc Securities.

"We are trying to build an integrated set of investment banking businesses on [Bank of America's] very important corporate banking business," says Mr McClelland.

Mr McClelland has plenty of experience to bring to the job.

The former Morgan Stanley banker, who built up the firm's West Coast tech banking business, was the man behind Deutsche Bank's US investment banking build-up.

He left Deutsche after the bank's board pulled back from its plan to build its US business organically. It subsequently agreed to buy Bankers Trust last year.

But Bank of America aims not to go head to head with bulge-bracket firms.

Currently, Bank of America services about 80 per cent of Fortune 500 companies, Mr McClelland notes, in corporate banking, and about 50 per cent of $50m-$500m companies in its core geographical markets, and expanding its investment banking services for existing clients is a key part of the strategy.

"If we become one of the most important investment banking service providers to our existing clients, we will be [among the top six investment banks in the US market]."

He estimates that on the basis of fees paid, the firm already ranks ninth in the US market and aims to double its revenues.

Mr McClelland has been hiring aggressively in the US. Recent hires include Ed Carter, the former Merill Lynch banker he previously lured to Deutsche; Brian Brille, Morgan Stanley's healthcare banker; and Barry Newman, a Salomon high-tech specialist.

But the firm has also lost staff recently, as some Montgomery bankers and analysts who found themselves unhappy as part of a large commercial bank have quit.

Seat sets records with profit and productivity

By Tom Burns in Barcelona

Seat, the Spanish subsidiary of German carmaker Volkswagen, lifted its net profit last year by 121.4 per cent to Pta24.4bn (€146m, $160m).

Pierre-Alain de Smedt, Seat's Belgian-born chief executive, said 1998 had been an "exceptional year" for the Barcelona-based car producer.

"We have set absolute records in production, productivity, sales and profits."

Sales of Seat brand cars, two-thirds of which are exported, were up by 7.2 per cent last year to 432,000 units. A flat market in western Europe was offset by a 19 per cent increase in sales in Spain, and Mr de Smedt expects similar results this year.

Production at Seat's new plant in Martorell, outside Barcelona, rose by 7.1 per cent to 500,500 vehicles and was 50 per cent up on forecasts made when the manufacturing centre started up in 1993.

Eric Krohn, Seat's German chief financial officer, said the Martorell plant, which also produces Volkswagen cars, had "turned from being a financial burden to a strategic opportunity".

The plant raised its labour force by 1,900 last year to 11,350 and increased its productivity from 59 units per employee a year in 1997 to 60 units, thanks to more flexible working arrangements and improved production systems.

The turnround at Seat, which moved into the black in 1996 when it posted profits of Pta5.3bn, was underlined by cash flow of Pta70bn, up from Pta65bn in 1997.

Mr Krohn said Seat had produced a balanced financial result for the first time since Volkswagen absorbed the company in 1986.

Seat's net financial debt, which stood at Pta117bn at the end of 1997, was drastically reduced last year to Pta51bn.

Telecom Italia cuts 'war fund'

By Vincent Boland

Telecom Italia has sharply reduced the amount of cash it intends to raise to fight a hostile €52.6bn ($48.1bn) takeover bid from Olivetti, its much smaller rival in the Italian telecommunications market.

Telecom Italia is to raise €5bn in the syndicated loan market, half the €10bn it had indicated it might be raising to fight Olivetti.

As part of its defense against the bid, Telecom Italia has said it would buy back up to 10 per cent of its shares, which could cost about €9bn. It is understood that the proceeds of the loan would be used to finance the repurchase if it goes ahead.

Bankers said Telecom Italia had scaled back its borrowing plans because its strong cash flows and liquidity meant it did not need to raise more.

The €5bn syndicated loan was launched yesterday, more than two weeks after Olivetti began raising its acquisition finance, the centrepiece of which is a €22.5bn syndicated loan.

Telecom Italia will pay a margin of 60 basis points over the reference rate – either Libor or Euribor, depending on the currency – for the 364-day loan. It had been expected to pay a margin of about 75 basis points for the larger loan.

Olivetti has been negotiating with lenders for the past two weeks and is expected to finalise its borrowing by the end of March.

One banker said the market was "moving in Olivetti's favour" after the company held a series of presentations with potential lenders at which it outlined the rationale behind its bid for Telecom Italia.

Telecom Italia's loan is being arranged by Credit Suisse First Boston, JP Morgan and IMI, the Italian bank. They have partly underwritten the deal and are seeking up to €500m each from banks wanting to join the syndicate.

Olivetti's arrangers are Chase Manhattan, Lehman Brothers, Mediobanca and Donaldson, Lufkin & Jenrette. It is understood the company has already received several commitments, in addition to those from its arrangers, from banks wanting to participate in the syndicate underwriting the €22.5bn loan.

A question of size

By George Graham in London and Tony Barber in Frankfurt

Italy's bank merger convulsion has narrowed the range of options for foreign banks looking for a way into one of Europe's more attractive markets.

But banks that already have a foot in the door cautiously welcomed the proposed mergers of UniCredito and Banca Commerciale Italiana, on the one hand, and San Paolo-IMI with Banca di Roma, on the other.

For banks seeking to build a pan-European financial institution, Italy has been an obvious target. It offers favourable market conditions – a buoyant savings market and margins that are still comfortably fatter than elsewhere in Europe. Until now, its banks have also been smaller and easier to acquire than rivals in other countries.

"The ability of foreign banks to play a role in Italy has passed, because the Italian banks have now reached a size where they can compete on their own," said Alastair Walton, managing director at Credit Suisse First Boston, the investment bank.

These factors have attracted Germany's Deutsche Bank and Commerzbank, which have each bought stakes in BCI. Both expressed enthusiasm for the combination with UniCredito, which would be called Eurobanca.

"If this is something that BCI favours, we favour it," said Dennis Phillips, a spokesman for Commerzbank, one of whose management board members, Axel Freiherr von Rüdorffer, sits on BCI's supervisory board.

'The Italian banks have now reached a size where they can compete on their own'

Commerzbank owns 5 per cent of BCI, while Deutsche Bank has a 4.5 per cent stake. But Deutsche Bank also owns 0.75 per cent of UniCredito, and would therefore end up with a slightly bigger stake in Eurobanca.

Deutsche Bank said a merger would increase the two Italian banks' value and benefit shareholders.

Analysts said Deutsche Bank, the biggest foreign bank in Italy, would welcome the UniCredito-BCI merger as a better deal than the proposed merger between BCI and Banca di Roma, which collapsed last week after a year of talks.

France's Paribas, itself embroiled in a takeover battle, also owns a stake in BCI.

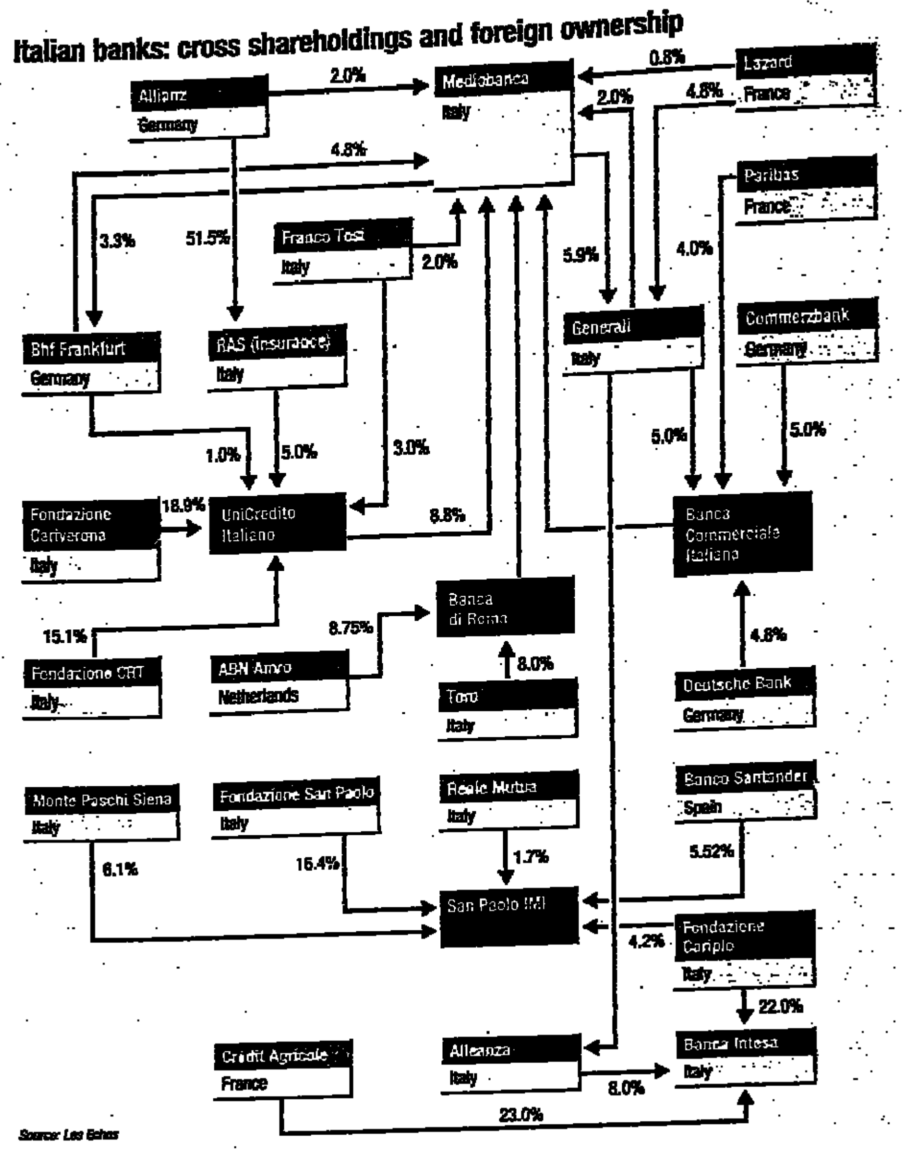
ABN Amro, the Dutch bank which has only just completed the acquisition of an 8.75 per cent stake in Banca di Roma, was more cautious in its reaction yesterday to the all-share offer from San Paolo.

The bank has told San Paolo that it is still early to give a response. Its reaction would depend on the respect accorded to its existing co-operation agreements with Banca di Roma.

ABN Amro has another string to its bow in Italy, since its deal with Banca di Roma also involved financing the sale of Banca Nazionale dell'Agricultura to Banca Antoniana Popolare Veneta. The Dutch bank has 0.5 per cent in the latter, but a holding of convertibles gives it the option of increasing its stake. Analysts said ABN Amro would also be likely to consider buying more Banca di Roma shares to avoid dilution of its stake.

Observer, Page 19

Italian banks: cross shareholdings and foreign ownership



Source: Les Echos

Mediobanca feels the heat

By Paul Betts in Milan

Mediobanca's dominant role in post-war Italian finance looked over yesterday as Banca Commerciale Italiana (BCI) and Banca di Roma appeared set to agree to separate mergers with UniCredito Italiano and San Paolo-IMI.

The two proposed mergers, announced on Sunday, were hailed yesterday by Massimo D'Alema, the Italian prime minister, Romano Prodi, the former prime minister and other businessmen as a sign that Italy was finally adapting itself to the global market.

But as the country and the Milan stock market absorbed the latest wave of consolidation in the Italian banking industry, the spotlight shifted to the future of Mediobanca and the secretive and once highly influential Milan investment bank's leadership.

Mediobanca's board is due to meet next Monday when the first clues to its future course are expected to emerge.

But one thing is already clear. The two blockbuster mergers are significant, if not fatal setbacks for the investment bank's ability to continue pulling the strings in the country's old financial and industrial networks.

For Enrico Cuccia, the bank's 92 year-old honorary chairman, and Vincenzo Maranghi, the chief executive and Mr Cuccia's 61 year-old protégé, they smack of outright defeat.

Financial analysts and Milan investment bankers now believe there are two alternative scenarios for Mediobanca. The first, and considered more likely, is a split of its two fundamental activities: merchant banking and managing a portfolio of large, often controlling stakes in a series of Italian industrial and financial groups.

The second is that it could be either the target of a takeover, unthinkable only a few years ago, or be absorbed by one of the new enlarged banking groups set to be formed by the latest consolidation. The two options are not altogether separate.

Lucio Rondelli, UniCredito's chairman and a Mediobanca board member (UniCredito owns 8.8 per cent of Mediobanca, so does BCI while Banca di Roma owns another 7.4 per cent), was in a diplomatic mood yesterday in fending off questions at a crowded press conference about UniCredito's intentions towards Mediobanca.

The combined UniCredito-BCI group would become Mediobanca's main shareholder with 17.6 per cent.

In the event of a hostile takeover for Mediobanca, Mr Rodelli said: "We would have to decide together with the other shareholders how to organise a defence if, of course, it involved an offer that should be rejected."

He would not be drawn on the future of Mediobanca's industrial and financial holdings. "This issue has not yet been addressed," he said. But Mediobanca remained a strong "brand" and "we will see what can be done to preserve it".

The new UniCredito-BCI combination also intended to continue collaborating with Mediobanca in its investment banking activities.

Profits forecast hits TNT shares

By Gordon Cramb in Amsterdam

Shares in TNT Post Group slipped 5.6 per cent yesterday as the Dutch mail and express delivery group forecast that net profits this year would increase by only 10-15 per cent.

Earnings for 1998 were 18 per cent higher at Fl 820m (€372m, $410m), towards the lower end of analysts' expectations. TNT, the world's only listed postal service, was presenting its first set of annual figures since it was spun off last June from KPN Telecom.

Ad Scheepbouwer, chairman, said the bottom line was suffering from the foreign exchange translation effects of weaker currencies in the Asia-Pacific region, notably the Australian dollar. These had a Fl 180m negative effect on revenues, which rose just 7 per cent to Fl 16.33bn. KPN had bought TNT, the Australian courier operator, in 1996.

Under US accounting standards, which do not allow the write-off of reorganisation costs, net income would have fallen 13 per cent. TNT shares are listed in New York as well as Amsterdam, London and Frankfurt.

From earnings per share of Fl 1.73, up from a proforma Fl 1.46, the company is paying a total dividend of 80 Dutch cents. It said no increase could be expected in the next few years while TPG invests in its business. Mr Scheepbouwer said it intended to strengthen its express network in southern Europe, in particular Spain and Portugal, as well as in Scandinavia.

The search for acquisitions was not yet putting TNT head-to-head against other national postal monopolies such as Deutsche Post, the German group which last week agreed the Fl 1.18bn takeover of the road transport operations of Nedlloyd. Those purchases had mainly been in other segments.

The express division encountered increased pressure on prices in Europe. These came down by 2-3 per cent. Mr Scheepbouwer said he had no ambition to expand in parcel delivery, where margins were low.

On the outlook for post, he said: "The substitution of letters by e-mail is not taking place - or to the extent that it is, it is being offset by higher volumes in direct-mail marketing."

COMPANIES & FINANCE: EUROPE

MEDIA GERMAN AND ITALIAN JOINT VENTURE TO COVER FOUR COUNTRIES

Kirch, Mediaset in TV deal

By John Gapper, Media Editor

A re-shuffling of European television assets was set in train yesterday as Kirch Group and Mediaset, the German and Italian media companies, confirmed terms for a joint venture that is to cover four countries.

Kirch Group also confirmed that it is set to increase its stake in Premiere, the German pay television venture, by buying most of a stake held by CLT-Ufa, the television arm of the German media company Bertelsmann.

The deals mean that Kirch Group will control the nascent pay television market in Germany, while collaborating with Mediaset, the dominant Italian commercial broadcaster, on "free-to-air" television across Europe.

Rupert Murdoch's News Corporation has opted not to take part in the venture. It was considering an investment in Kirch alongside Fininvest, the parent company of Mediaset, and Prince Al Waleed of Saudi Arabia.

Fininvest and Prince Al Waleed are both investing DM375m (€192m, $209m) in Kirch Media, the free-to-air broadcasting arm of the Kirch Group.

They will gain 3.2 per cent each of the entity, which is to be floated in two to three years.

Kirch Media is separately forming a joint venture company with Mediaset to hold assets including Betafilm, the international film distribution arm of Kirch, and Publieurope, Mediaset's international advertising sales arm.

The venture will also involve a company called European Television Network, which will include 29 per cent of Sat 1, the German television channel, and 29 per cent of Telecinco, the Spanish television company.

The venture could also include Retequattro, the television channel operated by Mediaset, in the future. However, Mediaset is to pay Kirch Media compensation of €195m for the lack of balance in the venture's current assets.

The partners in the venture said that negotiations with Mr Murdoch to join the venture was possible. "Murdoch can still join if he wants," said Gedele Confalonieri, chairman of Mediaset.

News Corporation lost interest in the investment during the negotiations because it believed it was not worthwhile holding so small a stake in Kirch Media. News later became involved in talks with Canal Plus, the French television company.

Mediaset was advised by Morgan Stanley Dean Witter and Kirch Media by Lehman Brothers.

Ikea 'will never be listed'

By Nicholas George in Almhult

Ingvar Kamprad, founder and chairman of Ikea, the world's largest furniture retailer, yesterday ruled out ever taking the company public.

"I will never take the company public because we must be able to take long-term decisions," he said.

He contrasted Ikea's approach to investments in Russia with those of other international retailers, claiming many had pulled out of the troubled country because of pressure to generate short-term returns.

"The advantage of not being a public company is that we can take decisions when we feel that in the long run they are good decisions," Mr Kamprad said.

Analysts have recently speculated that Ikea might go public. The group, with 150 stores in 28 countries, had sales of Skr56.64bn ($6.93bn) in the 12 months to August 31. It has been estimated it would have a stock-market value of Skr100bn if it listed.

Mr Kamprad was speaking as the company announced the resignation of Anders Moberg, chief executive, after 13 years. He will be replaced by Anders Dahlvig, who joined Ikea in 1983. "I don't see any dramatic changes, we are on a good track and our sales are better than ever," Mr Dahlvig said.

Mr Moberg will join Home Depot, the US home improvements retailer, as international president with the task of developing new markets outside the Americas. He will remain with Ikea until the end of 1999 to sort out problems threatening the launch of its Russian stores, the first of which was to have opened in November. The problems centre on import duties of up to 200 per cent.

Mr Kamprad stressed the importance of establishing a presence in new markets but said the company had experienced teething problems with its two new stores in China. They involved difficulties in securing a steady source of products from local suppliers and the positioning of one store – unusually for Ikea – in a shopping mall. However, he hoped more stores would be opened in China by the end of 2000.

"We are eager to participate in China and Russia due to the fact that we are badly needed in this market," he said. "They have nothing to furnish their flats with."

New CEO Anders Dahlvig: "I don't see any dramatic changes" AP

NEWS DIGEST

INSPECTION AND TESTING

Lost contracts slash profits at SGS by 44%

Operating profits of Société Générale de Surveillance, the world's biggest inspection and testing company, fell 44 per cent, to SFr155.7m ($106m) in 1998, the company said yesterday. Revenues were roughly unchanged at SFr3.15bn but operating margins were nearly halved to 4.9 per cent, reflecting the loss of two important contracts in Pakistan and Indonesia and lower revenues on the remaining government inspection contracts. SGS had already warned that it would report a net loss of around SFr300m, because of the need for restructuring charges and extra provisions for its traditionally highly profitable government contracts business. SGS's bearer shares were unchanged at SFr1,175 after it reported a SFr289.7m loss for 1998 and confirmed that it was passing its dividend. SGS's new management team, shortly to be strengthened by a new head of human resources and a global marketing chief, remains committed to restoring margins to SGS's traditional 10 per cent. However, analysts have questioned whether it is achievable since the profitability of SGS's government contract business has shrunk dramatically, following the loss of the two contracts, and only one of the other five core businesses is generating margins of over 10 per cent. The heavy cash outflow was halted in the second half of 1998 and SGS ended 1998 with net cash of SFr65m against SFr336.8m in 1997. Its cash position should be substantially strengthened by the forthcoming sale of its loss adjusting business which is expected to be finalised by mid-year. **William Hall, Zurich**

CZECH REPUBLIC

Komercni moves into loss

Komercni Banka, the largest Czech bank measured by assets, suffered an unconsolidated net loss last year of Kc9.55bn ($274m) according to international accounting standards, compared with a profit of Kc528m in 1997. The bank said yesterday that operating profits rose marginally to Kc11.42bn but it fell into loss under the heavy burden of provisions, that almost doubled to Kc20.98bn from Kc10.76bn a year earlier. The provisions against potential loan losses reflected in part the decline of the Czech economy last year, with gross domestic product shrinking by 2.7 per cent as well as the depressed outlook for 1999. The bank was also forced to reduce lending sharply last year. Jan Kollert, chief executive, said yesterday that the bank expected a further loss this year as a result of continuing high reserve and provision requirements. Komercni Banka, which is 49 per cent state-owned, is due to be privatised by the end of next year after action is taken to reduce the high share of non-performing loans in its balance sheet. The Czech government is being advised on the privatisation by Goldman Sachs. **Kevin Done, London**

BELGIUM

VPK set for listing

Belgian packaging group VPK said yesterday it would seek to raise up to €42.7m (US$39m) in a stock market listing in Brussels, to help it continue to grow faster than its competitors. In recent years turnover grew at just below 20 per cent, but the company expected it to jump by 33 per cent to BFr9.46bn (€235m, $256.7m) due to contributions from acquisitions. The cash raised in the offering will be used to double capacity in undulated cardboard in the Netherlands, speed up penetration in the French packaging sector and to finance the purchase of the remaining 50 per cent stake in Belgian Alltube. The sellers are STAK Packaging Investments, an administrative vehicle based around the Macharis family and other core private shareholders, and management. With a war chest of BFr2.8bn, VPK hopes to expand market share in the Netherlands. **Reuters, Brussels**

PROPERTY TARGET DISMISSES OFFER AS 'DERISORY'

Delancey makes £212m bid for Greycoat

By Norma Cohen

Delancey Estates, the property company run by James Ritblat, the son of John Ritblat, chairman and chief executive of British Land, has made an all-paper bid for Greycoat, a larger rival, valuing it at £212m ($346m).

The move reflects growing discontent among shareholders in smaller property companies over the sector's 30 per cent relative underperformance against the FTSE All-Share index last year. Shares in the companies are trading at discounts to net assets of about 30 per cent. Investors are putting pressure on managements to merge or liquidate assets to improve returns.

Greycoat's chief executive, Peter Thornton, yesterday dismissed the offer of two new Delancey shares for one Greycoat share as "derisory". He said that if the company were liquidated, shareholders would realise better cash returns than Delancey's all-paper offer.

Greycoat said it had been reviewing options for improving shareholder returns with its investment bank, NM Rothschild, since late last year. The company said it had decided to announce plans to find a buyer with year-end results in a few weeks' time. "We had decided we would seek offers for the company following this review," Mr Thornton said. "The company believes this announcement is intended to thwart that process."

Greycoat's shares soared from 168½p to 200p while Delancey's fell 3p to close at 97¾p, a move analysts said suggested investors expect another bidder to emerge.

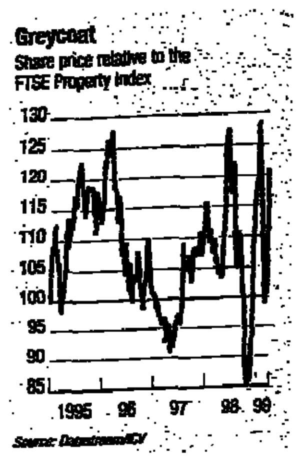
Analysts are forecasting the company's 1998 net asset value at 240p to 250p. Greycoat has losses for tax purposes of £140m, split evenly between revenue and capital gains. "Our effective tax rate is zero," Mr Thornton said, explaining why he believed a bid should put a higher price on Greycoat.

Greycoat shareholders said they welcomed a bid but were reluctant to accept a paper offer from another small property company.

Delancey is controlled by investors associated with George Soros' Quantum Fund and the family of John Ritblat. Mr Ritblat, acting as part of a concert party, had acquired a 29.74 per cent stake in Delancey through the sale of properties for shares. Last May, Delancey said funds associated with Mr Soros would invest a further £100.4m, giving them a 70 per cent stake and that £23.5m would be raised from the sale of new shares.

COMMENT

Greycoat



This is fun: a hostile, reverse takeover bid in the property sector. There are a number of things wrong with Delancey's onslaught on Greycoat, but lack of chutzpah is not one of them. Take the price. The 196p a share offer represents a whopping discount to estimates of Greycoat's net asset value of between 240p and 255p. Greycoat's returns have been dismal, but at least it does not suffer from two of the afflictions that explain many discounts to net asset value in the sector. It has chunky tax losses – so would not suffer a big tax hit on winding up the portfolio – and is not saddled with expensive debt which would significantly depress NAV when marked to market. Second, Delancey's share bid stands or falls on the record of the bidder. James Ritblat has property in his blood: his father is chairman and chief executive of British Land. Mr Ritblat Junior's foray into property includes a private property advisory group acquired by Delancey last year. His performance there was enough to win the backing of George Soros, whose fund invested in Delancey. Mr Soros knows how good that performance was. The rest of us do not. And it is still too soon to judge Delancey's investment record since its transformation from small fry into bigger fish.

Greycoat's days are numbered and its shareholders will not miss it. Delancey deserves credit for precipitating the auction. Roll on that cash offer.

Takeover rules

Electra has made much of the fact that 3i's hostile offer contains a condition allowing the bidder to withdraw if the FTSE All-share index falls by more than 10 per cent. It thinks this disadvantages shareholders by making the bid less likely to be completed. This is true, but unfair if Electra is implying 3i is up to anything murky. The UK's takeover rules allow investment trusts to set such conditions because holding shares is their business. And given the structure of 3i's bid – 45 per cent in cash – its shareholders might have killed it had there not been downside protection. This would not have advantaged Electra's investors. Nonetheless, the condition still looks weak-kneed. It seems desirable bidders should shoulder as much market risk as possible. In 3i's case, where it has made a first and final bid, it could have shortened the timetable.

Monument prepared to seek purchases

By Thorold Barker

Monument Oil & Gas, the exploration and production company, yesterday said it had £350m ($408m) available to pursue options, including asset purchases, a corporate acquisition or development of existing fields in areas such as Iran.

Tim Eggar, chief executive, said: "It is a time of real turmoil in the industry, making opportunities for a company in a strong financial position." The company did not rule out returning cash to shareholders.

Monument's position stems from last years' £95m rights issue and financial restructuring, and £117m in gains arising from its renegotiation last October of gas contracts with PowerGen in Liverpool Bay.

The comments accompanied a fall in net profits to £7.5m (£19.6m) for 1998 as a result of the low oil price. The results were unaffected by asset write-downs which have hit other oil companies and were cushioned by gas contracts with PowerGen, worth about $22 a barrel of oil equivalent, against an average of $13.34 last year.

Production rose to 22,300 (22,200) boe a day, but the key Liverpool Bay field remained well below maximum production.

A slick strategic approach to oil exploration

Thorold Barker looks at how the end of the E&P sector will affect UK upstream stocks

All change for the FTSE

Oil exploration and production has given investors a roller-coaster ride during its five years as a FTSE sector – in the first four years following its creation the sector leapt in value by 250 per cent, before crashing in recent months and finishing where it started.

Last week's mini-rally, on the back of hardening crude prices, has come too late to save the sector.

It will disappear on April 1 partly because of its size – the number of constituents has decreased and, at £4.7bn ($7.7bn) it represents only 0.33 per cent of the FTSE All-Share Index – and to bring the UK into line with the rest of the FTSE International's global indices, which have a single sector for oil and gas.

The new Oil and Gas sector will be split into three sub-sectors: Oil-Integrated, Oil and Gas – Exploration and Production, and Oil-Services.

But what effect will the demise of the E&P sector have on UK upstream stocks and will it affect their valuations?

Caroline Cook, of BT Alex Brown, says: "With no stocks in the FTSE 100 Index and coverage [at least at fund manager level] set to shift to either integrated oil analysts or small-cap teams, interest in the upstream as a single business seems set to wane."

Another manager, from an active fund, disagrees: "It will make no difference to us. We look at shares on whether they are cheap or expensive. Buying or selling because a company changes sector is an irrational response."

But other investors may simply want general oil exposure to balance their portfolios.

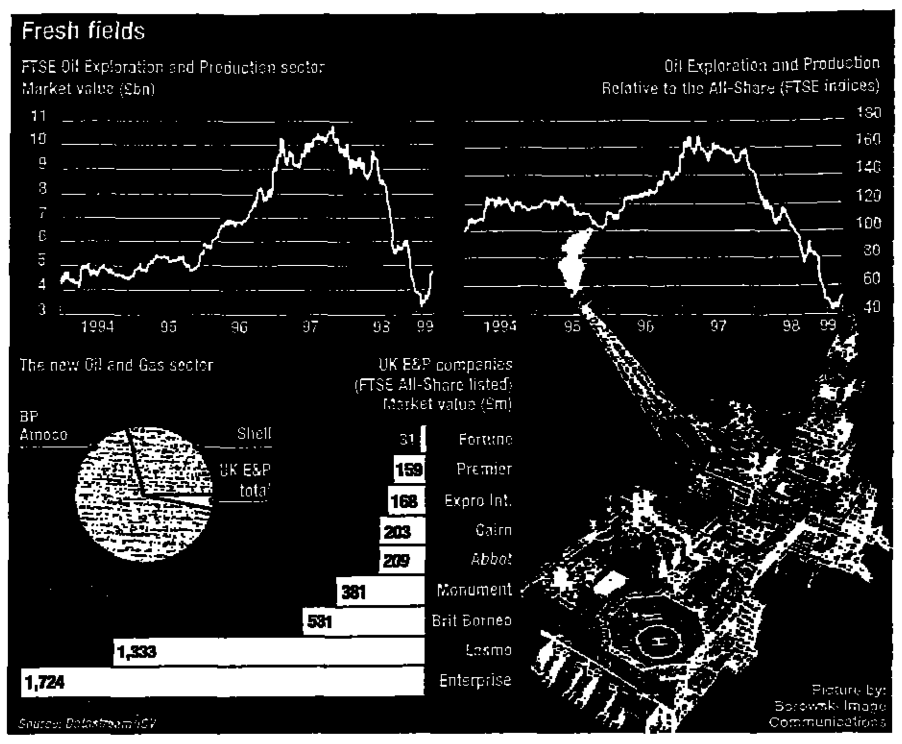
Tony Craven Walker, chairman of Monument Oil & Gas, says: "Oil companies tend to go up and down together, whether they are big or small. It's hard to see why an institution would invest in smaller companies, which do not have liquidity, if they just want oil price exposure."

He believes the end of the sector will force upstream companies to focus on differentiating themselves from their rivals to gain the attention of investors, and will accelerate the divergence between the strategies of the biggest and smallest.

The sector was started in January 1994 because E&P companies, whose skill was in discovering new oil fields, were valued on their assets.

Integrated oil companies, with the added dimensions of chemical production, oil refining, and marketing, were valued on earnings and cash flow.

Before the sector's creation, Ms Cook says: "Investors had compared the E&Ps to their larger diversified competitors and found them wanting".



When the sectors come back together this comparison, especially for the larger E&Ps, is likely to return. Enterprise Oil and Lasmo, the UK's biggest explorers, have already made noises about improving the predictability of profits and cash flow.

Pierre Jungels, Enterprise chief executive, last week said: "The industry needs more visibility of returns. We need to show we can go through the cycle without stop and go."

Lasmo has gone a step further by setting a return on capital target.

Becoming minnows in a big pool – BP Amoco and Shell will account for 97 per cent of the new index – could also increase pressure on companies to get bigger.

Enterprise and Lasmo are in merger discussions to create a super E&P force in the UK that would increase liquidity for investors and make a more balanced portfolio of assets.

Tim Whittaker, of Commerzbank, says: "Bigger companies will be better followed by the market, lowering their cost of capital and attracting higher ratings."

At the other end of the scale, the smaller explorers will not be able to compete on an earnings basis.

They are likely to have to change their strategy, focusing purely on exploration and making their returns from trading assets rather than from developing them.

For example, Cairn Energy recently sold 50 per cent of its Sangu field in Bangladesh to Shell for $190m, saying its skill was in finding oil, not managing its production.

April 1 will not push values down or change strategies overnight. But upstream companies will increasingly have to battle to maintain a profile with investors.

In the meantime, Mark Ianotti, of Credit Suisse First Boston, says: "It all depends on the oil price. Investors will continue to trade E&P stocks around the edges of a portfolio because they can achieve huge outperformance [as shown in recent weeks] when the oil price is strong."

Morgan Crucible to cut 1,100 jobs

By Thorold Barker

Morgan Crucible plans to axe 1,100 jobs this year as part of a restructuring to refocus the engineering group and raise the profitability of its core industrial and ceramics businesses.

The job losses would take the total to 2,000 – about 13 per cent of the workforce – since the beginning of last year and create yearly savings of about £20m ($33m).

Ian Norris, chief executive, said: "Assuming market conditions are not going to pick up, profit growth will have to come from driving cost out of the business."

His comments accompanied a steep fall in 1998 pretax profits to £33.9m (£112.1m). The figures, which were in line with expectations after a profits warning in January, included a provision of £57.2m for losses on the sale of non-core businesses.

A sharp downturn in third quarter trading was exacerbated by the General Motors strike in the US and the deferral of orders for ceramic refractories by US steel makers as Asian imports increased. Operating profits fell to £106.5m (£121.7m). Turnover was £900m (£891m).

The non-core speciality material division – most of which was sold last week for £170m – was hardest hit, with a 26 per cent fall in operating profits to £16.7m.

Mr Norris said the group would focus on areas "where there is 5 per cent growth and 15 per cent operating margins". It has been re-organised from five divisions into two: ceramics and carbon.

He detailed plans to dispose of further non-core business, representing turnover of about £80m, which should be completed by the end of the year.

The group will seek permission from shareholders at the annual meeting to buy back up to 14.99 per cent of the shares.

Strong growth at Arthur Andersen

By Jim Kelly

Arthur Andersen reported a 19 per cent increase in 1998 revenues to £465m ($758m) – a strong performance in the sector and further evidence of the firm's ability to put aside its long-running divorce proceedings with Andersen Consulting.

Philip Randall, UK managing partner, signalled the firm's move towards providing services through specialist teams that combine many professional disciplines – including increasing involvement from lawyers.

"The way in which we are serving clients is changing significantly and the traditional measures such as a breakdown of UK fees by service line is becoming much less meaningful. We want to get away from the old mindset," he said.

Revenues included £22m from Dundas & Wilson and £26m from Garretts – the two law firms that are part of the Andersen international network. "They are working with us on an increasing number of mutual clients," said Mr Randall.

Competitors are likely to see the results as being particularly strong as the strongest growth was in consulting – an area Arthur Andersen is now developing following its dispute with Andersen Consulting.

The two firms fell out over their governance and cross-subsidy agreements. The dispute has gone to international arbitration with divorce the likely outcome.

The results will also be seen as further evidence that Arthur Andersen's integrated worldwide structure has put it in a good position to serve multinational companies.

Mr Randall said: "During the year we won the worldwide internal audit contract for GEC and advised its newly-formed Marconi Communications group on integration and IT systems implementation."

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Alexon	Yr to Jan 30	144.8	(135.6)	16.8♥	(17.2)	21.19	(24.24)	nil	-	nil	nil	nil
Anglo Siberian Φ	Yr to Dec 31	-	(-)	0.041	(-)	0.088	(-)	-	-	-	-	-
Asda Property	Yr to Dec 31 ★	34.3	(37.9)	11.3	(9.6)	9.2	(8)	2.3	June 30	2.1	3.25	3
Black (A&C)	Yr to Dec 31	7.75	(7.14)	0.671	(0.527)	29.6	(25.1)	10.5	July 6	9.75	14.75	14
Boxmore Intl	Yr to Dec 31	106.7	(100.7)	13.6♥	(16.9)	13.37	(16.3)	2.4725	May 21	2.3	3.5475	3.3
Britannia	Yr to Dec 31	58.7	(45.8)	3.16	(0.795)	11	(3.2)	1.5	June 1	1	2.1	1.4
CA Coutts Φ	53 wks to Jan 2	33.4	(26.7)	2.27	(2.02)	13.7†	(12.9)	3	May 19	2.7	4	3.6
Core	Yr to Dec 31	-	(0.016)	5.9L	(4.69L)	20.3L	(17.2L)	-	-	-	-	-
FBD $	Yr to Dec 31	166.9	(156.9)	16.7	(14.3)	35.1	(30.7)	5.91	Mar 30	5	10.36	8.75
Flying Flowers	Yr to Jan 1	52.1	(45.3)	4.25♠	(5.83♠)	13.7	(20)	4.9	-	4.9	7.35	7.35
Forth Ports	Yr to Dec 31 ★	108.3	(95.1)	31♥	(24.5)	48.4	(41.8)	11	May 21	10	16	14.5
Friends I&S	10½ mths to Dec 31 ☆	39.7	(15.6)	14.1♥	(3.39♠)	9.43†	(5.43)	4	June 1	-	7	5.89
IES Φ	6 mths to Dec 31	3.45	(3.29)	1.06L♠	(0.266L♠)	4.8L	(1.5L)	-	-	-	-	-
Meristem	Yr to Dec 31	29.2	(32.4)	0.975♠	(3.58)	3.5	(10.4)	0.8	June 4	1.6	1.6	2.4
Monument Oil & Gas	Yr to Dec 31	81.3	(85)	7.81	(19.6)	0.91	(2.74)	-	-	-	-	-
Morgan Crucible	Yr to Jan 4 ★	900.4	(890.7)	33.9♠	(112.1♥)	0.7	(32.8)	8.5	July 6	8.5	15.9	15.5
Nestor Healthcare	Yr to Dec 31	253.9	(173.4)	12.6	(3.71)	11.75	(9.33)	2.97	May 28	2.47	4.65	3.87
Newsquest	53 wks to Jan 3	305.8	(265.6)	61♠	(31.6♠)	21.2	(11.9)	4	May 28	-	6	-
Peptide	Yr to Dec 31	0.731	(3.23)	7.51L	(6.45L)	20.7L	(18.1L)	-	-	-	-	-
Ramco Energy Φ	Yr to Dec 31	9.87	(6.56)	0.465L♠	(0.484)	3.36L	(1.49)	nil	-	nil	nil	nil
Roxboro	Yr to Dec 31	114.2	(113.2)	17.5	(15.74)	21.6	(19.1)	5.4	May 5	4.9	8	7.3
TransTec	Yr to Dec 31	389.9	(349.5)	13.7♥	(16.7♠)	5.7	(7.1)	1.85	July 12	1.85	2.8	2.7
Wescol	6 mths to Jan 31	33	(32.8)	1.91	(1.87)	2.3	(2.3)	0.8	June 3	0.8	-	1.9
TT	Yr to Dec 31	619.9	(631.6)	65♥	(62.5)	27.8	(28.2)	6.1	May 27	5.54	9.79	8.76

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Schroder Split	Yr to Jan 31	95.45	(157.65)	4.75	(4.73)	8.38	(8.36)	2.5	Apr 6	2.3	8.6	8.6
Schroder Vent Intl	6 mths to Dec 31	287.7	(196.6)	1.05	(1.38)	1.04	(1.38)	-	-	-	-	1.3

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ΦAim stock. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. $Irish currency. ★Comparatives restated. ☆Ivory & Sime comparatives for 10 months.

NEWS DIGEST

PHARMACEUTICALS

Glaxo treatment for diabetes rejected

Glaxo Wellcome yesterday had a drug application rejected for the second time in as many months when the Medicines Control Agency refused to reintroduce Romozin, a treatment for adults who develop diabetes. Under Europe's mutual recognition system, the decision by the UK agency means Romozin – one of a new class of drugs called glitazones – is unlikely to be approved anywhere in the European Union. Analysts said the rejection, prompted by concerns over side-effects, was not entirely unexpected and was unlikely to affect Glaxo's financial performance. Diabetes drugs are cheaper in Europe than in the US.

The news, however, comes as a fillip to SmithKline Beecham, which has high hopes for its own glitazone, Avandia. The US Food and Drug Administration is due to make a decision on Avandia next month.

Glaxo, which licensed Romozin from Sankyo Pharma of Japan, voluntarily withdrew it from the European market in December 1997 after safety concerns. It resubmitted it last year after Warner-Lambert, which markets it as Rezulin in the US, developed a liver-monitoring test designed to warn doctors when adverse reactions might occur. The MCA decided that, despite such measures, risks still outweighed benefits. Last month, an FDA advisory committee surprised Glaxo by failing to approve Relenza, a flu therapy. **David Pilling**

ENGINEERING

TI bolsters aerospace unit

TI, the engineering company, has bought Tri-Manufacturing, an Indiana-based maker of parts for jet engines, from General Electric of the US for $58m. Tri-Manufacturing had sales last year of $64m. It will be incorporated into TI's turbine engine components business, which has annual sales of about £150m. TI said the business would strengthen its ability to make parts for aerospace engine makers including GE, Pratt & Whitney, also of the US, and Rolls-Royce of the UK. It is keen to double its aerospace sales, which accounted for about a quarter of total revenues of £2.2bn last year. It has recently completed a deal in which Kohlberg Kravis Roberts, the US investment group, has taken a 4.9 per cent stake. KKR will help TI look for acquisitions worldwide. **Peter Marsh**

ELECTRONIC & ELECTRICAL EQUIPMENT

Sun joins Symbian venture

The Symbian communications alliance has received its second big boost in less than a week with the news that Sun Microsystems, the US computer manufacturer, has signed up as a partner to support the move towards an industry standard for the next generation of mobile devices. The addition of Sun to the Symbian venture, which is owned by Nokia, Ericsson, Motorola and Psion, is the most significant move since it was formed last year. The US group will use its Java software along with Symbian's Epoc operating system as the basis of a range of devices that will harness the communications capabilities of mobile phones to the power of hand-held computers.

Sun's decision to link with Symbian will put further pressure on Microsoft, the US software group, which had hoped to make its CE operating system as powerful in the consumer market as Windows 98 is for the desktop computer. Shares in Psion fell 11p to 954p. **Christopher Price**

MEDIA

Scoot in link with Energis

Scoot.com, the on-line services directory group quoted in London and on Nasdaq, has linked with Energis, the telecommunications operator. Scoot provides inquirers with telephone numbers for the services they require free of charge while its advertisers pay an average of £800 a year. Energis will provide advertisers with a leased line connecting them to Scoot free of charge. Inquirers will be switched through to the appropriate advertiser, who will pay Scoot a fee for each introduction. Scoot, which has lost £26m to the end of its last financial year, will benefit from payments each time its service is used. Energis will benefit from increased traffic across its network.

EURO PRICES

EQUITIES

Profit-taking and patience induce drift

EUROPEAN OVERVIEW

by Vincent Boland

Sharp rises in selected stocks riding on Europe's mergers and acquisitions bandwagon failed to prevent wider markets from falling slightly yesterday.

Even the Italian bourse could not gain ground in spite of hectic trading in the banking sector, subject of the current round of bid fever.

Profit-taking and a general wait-and-see attitude towards further European corporate restructuring were behind the drift, analysts said. The underlying tone of the markets remained generally positive, however, including on the earnings front, where the news so far this year has not been as bleak as forecast.

The euro remained weak against the dollar and investors, warming again to the oil sector, were watching today's Opec meeting in Vienna for clues to longer-term oil prices and what they might mean for equity markets and sector strategy.

"The best sector strategy through the period of 1990s disinflation has been to favour financials and secular growth stocks over more economically sensitive cyclical and consumer sectors," Salomon Smith Barney said in its latest European strategy report. "An oil-driven injection of inflation into the world economy, pushing up interest rates and bond yields, could be big enough to throw this strategy into reverse for a year or two."

The FTSE Eurotop 300 index closed 6.38 points lower at 1,251.72, while the FTSE Eurotop 100 index fell 15.72 to 2,895.32. The FTSE Ebloc index of stocks in euro-zone markets fell 10.28 to 1,039.94.

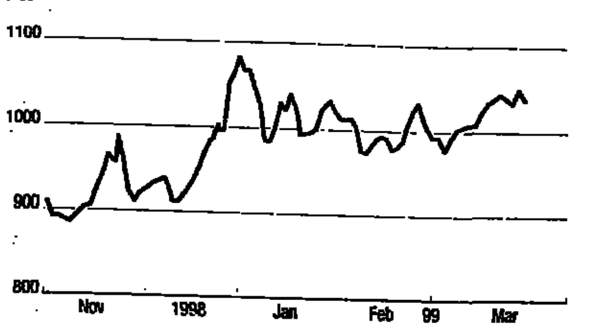
Most attention was on Italian banks, where two potential mergers that could transform the industry are in train. The two targets, Banca di Roma and Banca Commerciale Italiana, climbed 10 cents to €1.52 and 40 cents to €7.57 respectively, although they had been much higher in early trading.

UniCredito Italiano, which has made an all-share offer for BCI, fell 30 cents to €5, while San Paolo-IMI, seeking to merge with Banca di Roma, fell €1 to €14.85.

Bidders in other sectors also fell back. Pinault-Printemps-Redoute, bidding for fashion house Gucci, fell €6 to €144, while LVMH, which has made a counter-offer, closed 20 cents lower at €234.

FTSE Eurobloc 100

Index



Source: FTSE International

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Mar 22 National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total rtn (Euro €)
FTSE Eurotop 300	1251.72	-0.51	-6.38	2.05	3.92	1293.01
FTSE Eurotop 100	2895.32	-0.54	-15.72	2.02	10.04	1041.58
FTSE Eurobloc 100	1039.94	-0.98	-10.28	1.92	1.02	1058.07
FTSE Eurobloc	1226.23	-0.80	+0.02	2.86	4.35	1284.55
FTSE EuroMid Eurobloc	1192.88	+0.16	+1.92	2.52	2.35	1220.51
FTSE EuroMid Ex UK	1266.10	+0.07	+0.85	2.34	1.80	1281.23
FTSE Eurotop 300 Regions						
Eurobloc	1256.85	-0.84	-10.95	1.86	1.47	1326.15
UK	1263.80	+0.02	+0.20	2.54	8.89	1273.49
Europe Ex-Eurobloc	1217.24	-0.16	-1.97	2.21	6.36	1267.47
Europe Ex-UK	1279.68	-0.79	-10.21	1.76	1.14	1304.81
FTSE Eurotop Industry Sectors						
RESOURCES	1086.89	-0.33	-3.32	2.92	3.89	1057.43
Mining	916.75	-1.56	-14.53	4.90	21.37	959.17
Oil & Gas	972.73	-0.28	-2.73	2.88	2.82	999.72
BASIC INDUSTRIES	1109.28	-0.62	-6.88	2.58	2.55	1135.62
Chemicals	845.57	-0.94	-8.04	2.54	2.47	863.12
Construction & Bld Matls	1013.27	-0.40	-4.06	2.18	1.13	1023.32
Forestry & Paper	997.35	+1.73	+16.93	3.88	0.00	1042.65
GENERAL INDUSTRIALS	1154.69	-0.02	-0.25	2.35	3.28	1182.75
Aerospace & Defence	748.99	-0.68	-5.14	2.40	2.89	762.01
Diversified Industrials	997.09	-0.18	-1.84	2.02	0.00	1019.89
Electronic & Elect Equip	1069.68	+0.17	+1.85	1.80	5.15	1081.08
Engineering & Machinery	1025.65	-0.22	-2.24	4.43	4.15	1048.22
CYCLICAL CONS GOODS	1283.92	-1.16	-15.03	2.29	0.00	1319.87
Automobiles	934.72	-1.38	-13.12	2.34	0.53	943.92
Household Goods & Texts	1387.85	-0.10	-1.34	2.05	0.00	1399.70
NON-CYC CONS GOODS	1208.39	-0.27	-3.29	1.52	3.85	1245.55
Beverages	938.56	+0.18	+1.71	2.43	10.32	967.49
Food Producers & Process	910.85	-0.69	-6.30	1.68	1.41	922.96
Health	1015.57	-0.45	-4.54	1.06	0.00	1030.77
Packaging	811.17	-0.64	-5.20	1.11	0.00	812.18
Personal Care & Hse Prods	1093.89	-0.52	-5.67	0.92	1.94	1105.18
Pharmaceuticals	1101.64	-0.17	-1.88	1.25	3.25	1110.84
Tobacco	1344.38	+0.09	+1.17	3.73	7.11	1377.03
CYCLICAL SERVICES	1318.04	-0.68	-9.04	2.06	3.63	1360.37
Distributors	660.62	+1.96	+12.68	1.42	0.00	668.04
General Retailers	1079.94	-0.90	-9.61	2.26	1.27	1109.55
Leisure Entertmt & Hotels	993.96	-1.69	-17.11	2.02	8.72	1017.25
Media & Photography	1219.19	-0.55	-6.72	1.83	6.39	1238.62
Rests, Pubs & Breweries	876.35	-1.11	-9.88	3.29	3.71	905.99
Support Services	1065.43	-0.44	-4.69	1.09	1.10	1077.81
Transport	967.85	-0.14	-1.34	2.75	1.81	987.54
NON-CYCLICAL SERVS	1332.38	-0.15	-2.04	1.34	0.48	1371.87
Food & Drug Retailers	1027.34	+1.19	+12.07	2.10	0.51	1043.54
Telecommunications Servs	1319.24	-0.42	-5.62	1.21	0.43	1339.34
UTILITIES	1404.84	-0.65	-9.24	3.13	5.17	1494.92
Electricity	1066.09	-0.60	-6.48	3.31	4.44	1104.56
Gas Distribution	1175.79	-1.76	-21.04	1.66	1.00	1295.65
Water	909.84	+1.94	+17.34	5.42	5.94	958.79
FINANCIALS	1348.64	-0.65	-8.84	2.15	6.10	1392.00
Banks	962.42	-0.66	-6.41	2.53	6.00	982.59
Insurance	1008.26	-0.52	-5.28	1.36	1.78	1022.26
Life Assurance	1111.97	-1.10	-12.38	1.81	4.55	1130.96
Investment Companies	997.76	-0.08	-0.80	1.29	0.00	1021.70
Real Estate	717.95	-1.43	-10.40	3.49	1.67	738.36
Speciality & Other Fin	1021.25	-0.31	-3.13	2.21	0.79	1039.11
INFORMATION TECH	919.28	-1.30	-12.08	0.91	2.65	924.11
Information Tech Hardware	1011.56	-1.27	-13.01	1.01	3.71	1017.68
Software & Computer Serv	706.03	-1.39	-9.95	0.57	0.15	707.84

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■ THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.115	97.105	-0.020	97.115	97.095	25400	198548
Sep	97.130	97.130	-0.015	97.140	97.120	15223	169318
Dec	96.890	96.890	-0.020	96.900	96.875	8192	96349
Mar	97.030	97.030	-0.020	97.045	97.010	6434	81401

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.105	97.105	-0.020	97.105	97.100	65	105560
Sep	97.125	97.130	-0.015	97.125	97.115	10	93022
Dec	96.885	96.890	-0.020	96.885	96.875	134	83441
Mar	97.030	97.030	-0.020	97.030	97.030	7	84173

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100-rate

Strike Price	CALLS Jun	Sep	Dec	Mar	PUTS Jun	Sep	Dec	Mar
97000	0.140	0.205	0.140	0.235	0.035	0.075	0.250	0.205
97125	0.070				0.090			
97250	0.030	0.080	0.065	0.125	0.175	0.200	0.425	0.345
97375	0.015				0.285			

Est. vol. total, Calls 0 Puts 300. Previous day's open int., Calls 164339 Puts 96044

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) €20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	2907.0	2900.0	-15.0	2922.0	2907.0	335	4937

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) €10 per index point

	2700 C	2700 P	2750 C	2750 P	2800 C	2800 P	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P
Apr	227	19	185	33	146	44	110	59	78	78	55	104	36	136	308	52
May	260	63	223	75	187	89	154	107	125	128	99	152	77	180		

Est vol total:504 Prev day's open interest total: 8,112 Premiums shown are based on settlement prices.

OTHER INDICES

	Mar 22	Mar 19	Mar 18	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3561.42	3583.47	3538.27	3670.82	2433.07	3670.82	2433.07
DJ Euro Stx 50	3607.82	3633.05	3579.21	3685.36	2419.23	3685.36	2419.23
MSCI Europe	(u)	1228.66	1216.27	1315.55	908.59	1315.55	510.78

Source: Financial Times Information. *Subject to revision next day. (u) unavailable.

For real-time FTSE Eurotop 300 index quotes call FT Cityline on 0906 843 5920. Calls are charged at 60p per minute at all times.

FTSE EUROTOP 300

Name	Price (Euro)	Chge + or -	Mkt cap Euro(bn)	Vol (m)	Yld
[illegible]					

CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

Mar 22		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA
[illegible]												

Euro Locking Rates: [illegible]

BONDS

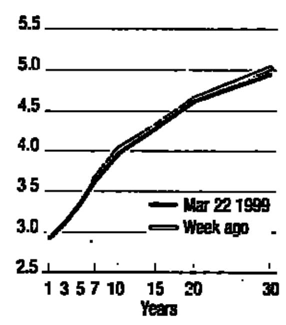
INTEREST RATE SWAPS

Mar 22	Euro-€ Bid	Euro-€ Ask	£ Stlg Bid	£ Stlg Ask	SwFr Bid	SwFr Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.04	3.07	5.25	5.28	1.52	1.56	5.29	5.32	0.22	0.25
2 year	3.11	3.15	5.23	5.26	1.78	1.86	5.48	5.51	0.34	0.37
3 year	3.26	3.30	5.27	5.31	2.00	2.08	5.58	5.61	0.57	0.60
4 year	3.43	3.47	5.28	5.32	2.20	2.28	5.65	5.68	0.83	0.86
5 year	3.60	3.64	5.26	5.30	2.38	2.46	5.72	5.75	1.09	1.12
6 year	3.77	3.81	5.25	5.29	2.56	2.64	5.78	5.81	1.36	1.39
7 year	3.94	3.98	5.24	5.28	2.74	2.82	5.82	5.85	1.58	1.61
8 year	4.09	4.13	5.24	5.28	2.90	2.98	5.87	5.90	1.78	1.81
9 year	4.22	4.26	5.25	5.29	3.06	3.14	5.90	5.93	1.94	1.97
10 year	4.31	4.35	5.26	5.30	3.20	3.28	5.94	5.97	2.08	2.11
12 year	4.46	4.50	5.27	5.32	3.42	3.52	6.01	6.04	2.29	2.33
15 year	4.66	4.70	5.28	5.33	3.68	3.78	6.10	6.13	2.55	2.60
20 year	4.88	4.92	5.28	5.33	3.94	4.04	6.20	6.23	2.75	2.80
25 year	5.02	5.06	5.27	5.34	4.04	4.14	6.20	6.23	2.81	2.86
30 year	5.07	5.11	5.27	5.34	4.14	4.24	6.20	6.23	2.86	2.92

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months Libor, £ and Yen quoted on a semi-annual actual/365 basis against 6 months Libor. Euro/Swiss Franc quoted on annual bond 30/360 basis against 6 month Euribor/Libor with the exception of the 1 year rate which is quoted against 3 month Euribor/Libor. Source: Intercapital Europe Limited.

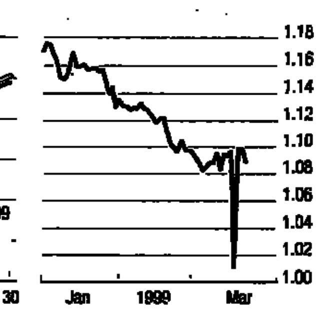
Euro bond yield curve

Per cent



Euro against the dollar

$ per €



Source: Interactive Data/FT Information

EURO-ZONE BONDS

Mar 22	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ SOVEREIGNS								
UK	01/01	4.250	AAA	101.974	3.13	+0.01	+0.01	+0.13
Denmark	01/02	4.750	AA+	103.907	3.25	+0.00	+0.01	+0.14
Sweden	02/01	5.000	AA+	103.301	3.15	+0.01	+0.01	+0.15
Greece	11/06	6.750	BBB	114.531	4.46	+0.06	-0.04	+0.82
■ SUPRANATIONALS								
ADB	10/07	5.500	AAA	107.798	4.39	+0.06	+0.06	+0.63
EIB	04/08	5.000	AAA	106.424	4.13	+0.04	+0.07	+0.25
Eurofima	12/09	5.625	AAA	108.849	4.56	+0.03	+0.08	+0.57
World Bank	04/05	7.125	AAA	117.631	3.81	+0.06	+0.01	+0.31
■ UTILITIES								
EDF	10/03	3.750	n/a	101.380	3.42	+0.04	+0.00	+0.19
TEPCO	02/03	4.750	AA	103.757	3.70	+0.02	-0.08	+0.47
Quebec Hydro	03/08	5.375	A+	105.039	4.67	+0.04	+0.06	+0.79
Norsk Hydro	10/99	7.250	A	101.890	3.48	+0.10	-0.03	+0.57
■ FINANCIALS								
Bad Wurtt	02/10	5.375	AAA	107.661	4.47	+0.03	+0.06	+0.42
OKB	09/07	5.750	AAA	110.851	4.20	+0.06	+0.07	+0.44
Credit Local	04/08	5.250	AA+	105.811	4.46	+0.05	+0.07	+0.58
Abbey Natl	01/09	5.000	AA-	101.596	4.79	+0.04	+0.08	+0.80
■ INDUSTRIALS								
Unilever	10/01	5.125	AAA	104.350	3.31	-0.01	-0.08	+0.31
McDonalds	03/08	5.125	AA	105.157	4.42	+0.05	+0.07	+0.54
Philip Morris	06/08	5.625	A	104.601	4.99	+0.05	+0.13	+1.11
BAT Int Fin	07/06	5.375	A-	102.907	4.89	+0.07	+0.03	+1.25
■ PFANDBRIEFE								
Rhein Hypo	12/01	5.500	n/a	105.666	3.25	+0.01	-0.03	+0.25
Eurohypo AG	01/04	5.000	n/a	106.143	3.58	+0.02	-0.02	+0.21
Bayer Vereins	01/06	6.000	n/a	112.044	3.95	+0.04	+0.04	+0.31
Depfa	07/08	4.750	n/a	103.522	4.28	+0.04	+0.06	+0.40
■ HIGH YIELD								
Geberit	04/07	10.125	B+	114.750	6.27	+0.00	-2.16	+2.51
Colt Telecom	11/07	8.875	n/a	107.911	7.61	-0.08	-0.31	+3.85
Impress Metal	05/07	9.875	B	111.000	7.33	-0.09	-2.05	+3.57
Remy Cointreau	07/05	10.000	B+	99.652	10.07	+0.05	-0.20	+6.57

Standard & Poor's ratings. Source: Interactive Data/FT Information

Traders shun Liffe 10-year swap future

By Arkady Ostrovsky

The London International Financial Futures and Options Exchange placed great hopes on its 10-year swap future when it was launched last year.

Liffe had hoped the contract, based on the high volume over-the-counter swaps market, would help retrieve some of the business lost when its 10-year German bund future moved to Frankfurt. But five months on, the contract has failed to take off. It is all but ignored by investors and is traded only "spasmodically", according to one if its creators.

"It was a bold and brave attempt by Liffe to introduce a swaps contract, but it was flawed because it did not have the support of the market," said Steve Major, bond strategist at ING Barings.

The contract – the so-called EuriborFinanced-Bond (EFB) – is based on the swap rate curve. The curve is calculated from the rate at which fixed-rate money is swapped into floating-rate money.

The swap curve, in other words, is the extension of the Libor or Euribor curve to longer maturities and is based on inter-bank lending as opposed to government credit. Liffe's instrument was designed to enable investors to hedge their exposure to the swaps market.

However, unlike a bond future, a swaps contract is a purely notional product with no underlying cash instrument. Guy Simpkin, director of product development at Liffe, argues that one of the advantages of any swap future, is that it would not – unlike a bond future – be vulnerable to liquidity "squeezes" because the swaps market is not confined to a finite supply of underlying instruments.

In addition, the swaps market is deeply liquid in its own right. With nominal outstandings of €7,204bn, it is more that 10 times the size of the German government bond market, according to Liffe. These are just some of the reasons why a swap future was supposed to win the market's support. But traders refused to take it on board, saying it is too complicated to trade.

Privately, traders agree Liffe's attempt at co-opting the swap market was not in the interest of banks, because it threatened to undermine their lucrative share of the business. Swaps are unlisted instruments and banks can set their own prices for providing the service of swapping fixed into floating-rate money.

"If all we have to do is to provide access to Liffe's contract, rather than the service itself, we will not be able to make a good profit margin," said one banker.

But Liffe is still determined to make the contract work. Mr Simpkin argues that opening the swaps market to a broader universe would benefit everyone, including the banks.

He blamed poor timing for the failure of the contract. "We launched this product immediately after the Russian crisis and the near collapse of the LTCM, when investors had little appetite for any innovation. It was the worst possible time."

Europe marginally lower

BENCHMARK BONDS

By Bertrand Benoit in London and John Labate in New York

European government bond prices fell marginally yesterday in the wake of a US Treasury sell-off late on Friday.

Last week's drop in US Treasury prices was sparked by fears of oversupply as AT&T, the US telecommunications giant, was expected to issue up to $11bn worth of bonds. These fears subsided yesterday when the company issued a $7bn bond.

Treasury prices were also affected by fears of inflationary pressures from rising oil prices. Rumours that Robert Rubin, the Treasury secretary, would resign also affected sentiment.

US Treasuries were mixed in morning trading, but prices had steadied by midday. By early afternoon the 30-year bond, the benchmark for long-term US interest rates, had gained ⅜ to 96, sending the yield down to 5.524 per cent.

Among shorter-term issues the 10-year note was up ⅛ at 96¾, yielding 5.165 per cent and the two-year note was unchanged at 99⅞, yielding 5.050 per cent.

"It's entirely a deal-driven market today, but volume is slightly positive," said Ken Fan, US bond strategist at Paribas Capital Markets.

US Treasuries found some comfort in an unofficial report that the US government was set to redeem $100bn of bonds in the second quarter of the year. This could boost prices by tightening the supply of Treasury paper.

"The second quarter is generally a good one for the Treasury, but the budget surplus will make this redemption exceptional," said Phyllis Reed at Barclays Capital.

European bond prices edged lower, taking their cue from Treasuries. The benchmark 10-year German bund future fell 0.15 points to 114.27.

The market reacted negatively to news that the German government would issue €22bn worth of bonds in the second quarter – €2bn more than expected.

Long-term paper was particularly weak as the Bundesbank prepared to auction €5bn of its new 10-year bond.

The yield on the 10-year bund rose by 6 basis points to 3.97 per cent.

UK gilts were also weaker, with the 10-year gilt future settling 0.15 points lower at 116.80 on Liffe.

Gilts fell in spite of news that the Office of National Statistics cut its fourth-quarter 1998 GDP growth figure from 0.2 per cent to 0.1 per cent, with annual growth down to 1.1 per cent from 1.3 per cent.

"This is the lowest level since the recession in 1992, and that should be good news for the gilts market," said Joanne Collins at Daiwa Europe.

The spread on the euro-denominated swaps curve tightened by between 2 and 2.5 basis points across most maturities.

BAT makes second foray in euros

NEW ISSUES

By Edward Luce, Capital Markets Editor

British American Tobacco made its second foray into the euro-denominated bond market with an €1bn offering. The bond, somewhat overshadowed by the $7bn offering from AT&T, was well-received, in spite of suggestions that the European corporate bond market was suffering from over-supply.

It was priced to yield 88 basis points over the five-year benchmark. BAT's previous 10-year €1.7bn offering was trading at a spread of about 120 basis points over its benchmark last night.

"The market isn't stuffed full yet," said one syndicate official. "But it responds much better to deals that have been sensitively marketed before launch."

Morocco made a rare visit to the markets with an €138m offering guaranteed by the French development agency. The bond, which will refinance some of Morocco's existing bilateral debt with France, was its first issue since 1986.

Abbey National added to the growing list of names to launch subordinated debt denominated in euros with a perpetual step-down bond. The offering, targeted at retail investors, follows a number of similar deals by Spanish banks.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
MART Class A‡	417	(a,s,m)	100.00	Jun 2008	-	-	Lehman Bros/Goldman
MART Class B‡	51	(b,s,m)	99.916	Jun 2008	-	-	Lehman Bros/Goldman
MART Class C‡	58	(b,s,m)	99.860	Jun 2008	-	-	Lehman Bros/Goldman
MART Class D‡(b1)	111	(b,s,m)	99.646	Jun 2008	-	-	Lehman Bros/Goldman
Chase Funding Class‡ A1	138	(c,m)	100.00	May 2006	-	-	Chase Manhattan/Lehman
Chase Funding Class A2(d)	58	5.947	100.00	Mar 2002	-	-	Chase Manhattan/Lehman
Deutsche Bank Finance	300	5.75	99.325R	Apr 2004	0.25R	+73(4¾Feb04)	Deutsche Bank
British Gas Int Finance	300	6.00(l)	99.916R	Apr 2004	0.30R	+80(4¾Feb04)	ABN Amro/CSFB
Canadian Wheat Board	100	zero	95.171R	Mar 2000	0.05R	-	Nomura
EUROS(e)							
BAT Int Finance(f)	1bn	4.25	99.735R	Apr 2004	0.30R	+88(Jul 04)	ABN/Amro/Merrill Lynch
CRH(f,g)	215	5.00	104.718R	Apr 2008	0.35R	+32½(Apr 08)	CAIB
Republic of Lithuania	200	8.00	99.245R	Mar 2004	0.625R	+475(Mar 04)	CSFB/DrKB
Kingdom of Morocco(f)	138	3.95	100.00R	Apr 2004	0.35R	+55(5½Apr04)	CCF
Abbey National	100	(h)	100.00	Undated	2.00	-	MSDW
UBS	100(j)	3.50	98.350R	Jan 2006	0.30R	-	Warburg Dillon Read
FSA Global Funding	80	(k)	100.00R	Apr 2014	0.50R	-	MSDW/Monte dei Paschi
SWISS FRANCS							
John Hancock Glbl Fndng(n)	150	2.50	102.20	Feb 2004	2.00	-	Warburg Dillon Read

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) 1-mth Libor plus 37. b) 1-mth Libor plus 51¾. b1) Also issued: Class E $48m, Class F $49m, Class G $16m. c) 1-mth Libor plus 26. d) Also issued: Class M1 $17m, Class M2 $11m, Class B $8m. e) Spread relates to German govt bonds unless stated. f) Spread relates to French govt bonds. g) Fungible with €2.4bn. Plus 426 days accrued interest. h) 6% until Apr 04. 5¾% thereafter. Callable from Apr 04. j) Fungible with €450m. Plus 62 days accrued interest. k) 4% in yrs 1-5. 64% of 10yr EUR CMS subject of a minimum of 4. l) Long 1st coupon. m) Monthly. g) Fungible with €2.4bn. Plus 426 days accrued interest. n) Fungible with SFr 250m. Plus 72 days accrued interest. s) Short 1st coupon

NEWS DIGEST

SOVEREIGN ISSUES

Hungary expected soon with $750m global bond

Hungary is expected to tap the international capital market in the next few days with the issue of a $750m, seven-year global bond, its second sovereign issue in less than three months. The bond will be lead-managed by Salomon Smith Barney and ABN Amro and will be presented this week at roadshows in London and the US.

The issue will be the first global bond to be launched by a borrower from eastern Europe. It will be fully registered with the US Securities and Exchange Commission, allowing it to be sold to any investors in the US, and it will have a European listing in Luxembourg.

The US dollar bond will follow the launch of Hungary's first euro-denominated bond in January, when it raised €500m in a 10-year issue led by J.P. Morgan and DG Bank at a yield spread of 87 basis points over equivalent bunds.

Hungary will be the first sovereign issuer from eastern Europe this year to tap the dollar market. It follows euro-denominated bonds by Croatia, Slovenia, Hungary itself, and from Lithuania yesterday.

Hungary has some $1.9bn in foreign state debt maturing this year, which it is planning to repay through foreign bond issues. With the latest issue it will have raised about $1.3bn in the first three months of the year. **Kevin Done**

ELECTRONIC TRADING

CFTC to discuss rule changes

The Commodity Futures Trading Commission, the US futures industry regulator, plans to hold a "round-table" within the next three to four weeks, to discuss proposed rules under which foreign electronic exchanges would be allowed to access directly US-based customers. The draft rules, published last week, have proved highly controversial, with large trading firms claiming that they were unnecessarily burdensome and complex, and some non-US exchanges arguing that they would further delay access to the valuable US market. **Nikki Tait, Chicago**

EQUITY INDICES

Stoxx to launch new products

Stoxx, the company that runs the Dow Jones Stoxx equity indices, is to launch two new index products next month, and has streamlined its existing sub-index family. Stoxx will launch the Dow Jones Stoxx Europe ex-Euro index, to cover western European countries not in the euro-zone – Denmark, Greece, Norway, Sweden, Switzerland and the UK. It is also launching the Dow Jones Stoxx ex-UK indices, comprising the Dow Jones Stoxx ex-UK and 19 sub-indices covering market sectors excluding UK companies. **Vincent Boland**

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Mar 22	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	106.4697	4.94	+0.01	+0.04	-0.01	-0.05
	08/08	8.750	123.6715	5.49	+0.03	+0.07	+0.10	-0.23
Austria	03/01	5.250	104.0200	3.10	+0.03	-0.02	+0.08	-0.95
	01/08	5.000	106.4000	4.12	+0.04	-0.02	+0.10	-0.81
Belgium	03/01	5.000	103.6700	3.08	+0.01	+0.01	+0.16	-0.98
	03/09	3.750	96.2900	4.21	+0.02	-0.03	+0.11	-0.72
Canada	12/00	5.000	99.8400	5.10	+0.02	+0.08	+0.06	+0.21
	06/08	6.000	105.5700	5.23	+0.03	+0.08	+0.07	-0.10
Denmark	11/00	9.000	108.7800	3.35	-0.02	-0.05	-0.11	-0.92
	11/09	6.000	113.6700	4.36	+0.02	-0.06	+0.15	-0.76
Finland	06/00	4.000	101.1780	3.00	-	+0.01	-	-0.70
	04/09	5.000	108.5440	4.19	+0.04	-0.05	+0.10	-0.65
France	07/00	4.000	101.2100	3.02	+0.02	+0.03	-	-1.00
	04/06	7.250	122.0000	3.66	+0.02	-0.04	+0.08	-0.97
	04/09	4.000	98.3400	4.08	+0.02	-0.03	+0.13	-0.80
	04/29	5.500	107.9200	4.99	+0.02	-0.05	+0.15	-0.43
Germany	05/01	5.000	104.0700	3.01	+0.01	-0.02	+0.04	-0.87
	01/06	6.000	113.0500	3.78	+0.03	-0.03	+0.12	-0.91
	01/09	3.750	98.2500	3.97	+0.04	-0.04	+0.08	-0.88
	07/28	4.750	96.9100	4.95	+0.02	-0.06	+0.12	-0.46
Greece	03/00	9.800	100.8130	8.88	+0.02	-0.28	-0.79	-1.50
	01/09	6.300	103.4212	5.83	+0.05	-0.09	-0.37	-2.37
Ireland	10/01	6.500	108.1500	3.14	+0.02	-0.03	-0.03	-1.32
	08/08	6.000	114.3000	4.13	+0.05	-0.08	+0.04	-0.88
Italy	07/01	4.500	102.9700	3.12	+0.01	-0.03	+0.02	-1.37
	07/03	4.500	104.1800	3.44	+0.02	-0.07	-0.02	-1.24
	05/09	4.500	102.6800	4.17	+0.03	-0.07	+0.07	-0.92
	11/27	6.500	120.0500	5.15	+0.03	-0.06	+0.13	-0.46
Japan	12/00	6.900	111.5620	0.19	-0.03	-0.08	-0.11	-0.41
	12/03	4.100	114.9570	0.87	-	-0.12	-0.18	-0.31
	06/08	1.800	101.0560	1.68	-	-0.11	-0.08	+0.08
	09/18	2.300	96.0320	2.56	-	-0.14	-0.11	+0.15
Netherlands	01/01	9.000	110.2900	3.03	-	+0.01	+0.06	-1.02
	07/09	3.750	97.0700	4.10	+0.03	-0.04	+0.11	-0.74
New Zealand	02/01	8.000	105.4340	4.90	+0.01	-	-0.05	-2.86
	07/09	7.000	108.9812	5.83	+0.05	-	+0.24	-1.14
Norway	05/01	7.000	104.2600	4.87	+0.06	-0.03	+0.02	+0.56
	05/09	5.500	104.6500	4.90	+0.12	+0.01	+0.14	-0.32
Portugal	03/00	5.375	102.3400	2.92	-	-0.05	-0.07	-1.10
	08/08	5.375	108.8300	4.20	+0.06	-0.03	+0.12	-0.80
Spain	01/01	5.000	103.5900	2.97	+0.03	-	-0.07	-1.18
	07/09	5.150	105.8700	4.43	+0.06	-0.06	+0.36	-0.57
Sweden	05/00	10.250	107.4986	3.19	-0.01	-0.12	-0.04	-1.55
	05/08	6.500	115.9610	4.34	+0.06	-0.08	+0.14	-0.93
Switzerland	06/00	4.500	103.6000	1.44	+0.01	+0.02	+0.06	-0.24
	01/08	4.250	118.3100	2.19	+0.02	-0.01	-0.11	-0.62
UK	11/01	7.000	105.3800	4.79	+0.02	-0.10	+0.05	-1.89
	12/03	6.500	108.0300	4.58	+0.03	-0.10	+0.07	-1.46
	12/09	5.750	110.7400	4.48	+0.04	-0.05	+0.01	-1.43
	12/28	6.000	125.0100	4.47	+0.03	-0.08	+0.09	-1.37
US	01/01	4.500	99.0395	5.05	+0.03	+0.06	+0.06	-0.49
	02/04	4.750	98.5110	5.10	+0.04	+0.04	+0.02	-0.54
	11/08	4.750	96.8101	5.17	+0.01	+0.03	-0.01	-0.47
	02/29	5.250	95.8096	5.54	-	+0.03	-0.02	-0.38

London closing * New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by non-residents

10 YEAR BENCHMARK SPREADS

Mar 22	Bid Yield	Spread vs Euros	Spread vs T-Bonds
Australia	5.50	+1.51	+0.33
Austria	4.30	+0.31	-0.87
Belgium	4.21	+0.22	-0.96
Canada	5.23	+1.24	+0.06
Denmark	4.34	+0.35	-0.83
Finland	4.19	+0.20	-0.98
France	4.07	+0.08	-1.10
Germany	3.99	-	-1.18
Greece	5.75	+1.76	+0.58
Ireland	4.19	+0.20	-0.98
Italy	4.21	+0.22	-0.96
Japan	1.72	-2.27	-3.45
Netherlands	4.13	+0.14	-1.04
New Zealand	5.84	+1.85	+0.67
Norway	4.90	+0.91	-0.27
Portugal	4.23	+0.24	-0.94
Spain	4.31	+0.32	-0.86
Sweden	4.37	+0.38	-0.80
Switzerland	2.39	-1.60	-2.78
UK	4.55	+0.56	-0.62
US	5.17	+1.18	-

Source: Interactive Data/FT Information. London closing * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Mar 22	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	95.3704	8.83	+0.16	-0.16	+3.76
Poland	07/04	7.125	BBB-	103.4707	6.32	+0.02	-0.53	+1.22
Russia	06/07	10.000	n/a	28.5400	39.70	+0.17	+1.73	+34.56
LATIN AMERICA								
Argentina	09/27	9.750	BB	85.0000	11.55	+0.02	-0.33	+6.03
Brazil	05/27	10.125	B+	69.6250	14.66	-0.02	-0.38	+9.16
Mexico	05/26	11.500	BB	111.7500	10.21	+0.04	-0.08	+4.73
ASIA								
China	07/06	7.750	BBB+	101.2500	7.51	+0.04	-0.06	+2.38
Philippines	10/16	8.750	BB+	95.2000	9.31	-0.02	-0.30	+4.01
Thailand	04/07	7.750	BBB-	101.7500	7.48	+0.01	-0.38	+2.32
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	101.3028	8.00	+0.18	-0.75	+2.98
South Africa	10/06	8.375	BB+	97.5720	8.82	+0.06	-0.60	+3.69
Turkey	06/07	10.000	B	91.0000	11.64	+0.03	-0.53	+6.50
BRADY BONDS								
Argentina	03/23	5.750	BB	70.3750	9.04	+0.06	-0.06	+3.61
Brazil	04/14	5.000	B+	61.2500	13.68	+0.05	-0.43	+8.42
Mexico	12/19	6.250	BB	78.8750	8.42	+0.02	-0.17	+3.06
Venezuela	03/20	6.750	B+	66.5000	11.80	+0.05	-0.01	+5.45

London closing, prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information

BOND FUTURES AND OPTIONS

France

NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	95.02	95.11	-0.39	95.34	94.78	27,763	74,698

LONG TERM EURO BOND OPTIONS (MATIF)

Strike Price	Calls Apr	Calls May	Calls Jun	Puts Apr	Puts May	Puts Jun
97	-	-	0.26	-	-	-
98	-	-	0.13	3.45	3.49	-
99	-	-	0.06	4.45	4.45	-
100	-	-	0.03	5.45	5.45	-

Est. vol. total, Calls n/a Puts n/a. Previous day's open int., Calls n/a Puts n/a.

Germany

NOTIONAL EURO BUND FUTURES (EUREX) €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	114.32	114.28	-0.16	114.32	113.91	421,006	549,117
Sep	114.25	114.30	-0.31	114.30	114.25	885	-

NOTIONAL EURO BUND (BOBL) FUTURES (EUREX) €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	108.84	108.88	-0.03	108.90	108.73	96,639	211,868

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	113.60	113.43	-0.40	113.61	113.21	7898	35356

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	98.10	97.87	-0.47	98.13	97.67	14,919	16,200

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	108.60	-0.17	-	-	0	63
Jun	-	108.31	-0.17	-	-	0	0

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	116.51	116.80	-0.15	116.80	116.34	185	5592
Jun	117.35	117.38	-0.17	117.43	116.80	27253	75074

* LIFFE futures also traded on APT. All Open interest figs. are for previous day

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
11650	1.85	2.54	0.97	1.66
11700	1.55	2.27	1.17	1.89
11750	1.28	2.02	1.40	2.14
11800	1.04	1.79	1.66	2.41
11850	0.86	1.58	1.98	2.70
11900	0.66	1.38	2.28	3.00

Est. vol. total, Calls 170 Puts 2138. Previous day's open int., Calls 16399 Puts 10748

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	121-19	121-18	-0-04	121-18	121-14	5,614	21,624
Jun	120-31	121-02	-0-04	121-03	120-27	305,544	607,045
Sep	120-17	120-18	-0-06	120-20	120-16	4,889	17,707

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	131.55	131.52	-	131.60	131.50	149	n/a
Sep	-	130.52	-	-	-	0	n/a

Euro

€ BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	107.05	107.28	-0.52	107.05	107.05	1	20

US CORPORATE BONDS

Mar 19	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	104.4627	5.72	+0.04	+0.27	+5.72
NY Tel	08/25	7.00	A+	99.1084	7.07	+0.03	+0.14	+1.54
CWE	05/08	8.00	BBB	112.4237	6.19	+0.04	+0.20	+1.03
FINANCIALS								
GECC	05/07	8.75	AAA	118.0399	5.92	-	+0.12	+0.76
Banc One	08/02	7.25	A	104.2141	5.84	+0.05	+0.17	+5.84
CNA Fin	01/18	6.95	A-	94.2495	7.52	+0.05	+0.50	+1.99
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.0123	5.44	-0.12	-0.44	+0.95
Wal Mart	05/02	6.75	AA	103.7250	5.44	+0.05	+0.33	+5.44
Dayton Hud	08/21	9.70	A-	132.4703	6.83	+0.04	+0.27	+1.30
AGENCIES								
FHLMC	04/07	7.14	N/A	109.1671	5.70	-	+0.13	+0.54
SLMA	03/00	7.50	N/A	102.1846	5.13	-	-0.03	+0.64
FNMA	02/18	8.95	N/A	131.9078	6.08	+0.05	+0.20	+0.55
FFCB	06/06	8.95	N/A	119.0562	5.68	+0.04	+0.16	+0.52
HIGH YIELD								
Stone Cont	02/01	9.88	B	100.7500	0.00	-	-	-
AK Stl	12/01	9.13	BB-	106.0000	0.00	-	-	-
Pacalta	06/04	10.75	B-	84.0000	0.00	-	-	-

NY latest. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields	
Prime rate	7¾	One month	4.51
Broker loan rate	6½	Two month	4.51
Fed.funds	4⅞	Three month	4.51
Fed.funds at intervention	-	Six month	4.64
		One year	4.74
		Two year	5.05
		Five year	5.08
		10-year	5.17
		30-year	5.54

INTERNATIONAL BONDS

Mar 22	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
$								
EIB	04/07	7.250	AAA	108.7977	5.85	+0.02	+0.14	+0.71
ABN Amro	06/07	7.125	AA-	104.5546	6.39	+0.02	+0.06	+1.25
Quebec	01/07	7.000	A+	105.9189	6.04	+0.03	-0.06	+0.90
Citicorp FRN	02/04	5.066	AA-	98.9907	5.30	+0.05	-0.29	+0.20
C$								
Bayer L-Bk	08/04	9.500	AAA	117.1310	5.70	+0.03	+0.06	+0.22
Toronto (M of)	05/04	8.500	AA+	112.3953	5.66	+0.03	+0.12	+0.18
Bell Canada	07/99	10.625	A+	101.4051	5.54	+0.02	+0.08	+1.27
Deutsche B FRN	09/02	5.875	AA+	100.4782	5.72	+0.02	+0.07	+0.32
£								
EIB	12/07	7.625	AAA	116.5800	5.20	+0.05	+0.08	+0.55
Dresdner Bk	12/07	7.750	AA-	111.9800	5.94	+0.03	+0.01	+1.29
British Gas	03/00	7.625	A+	102.0000	5.54	+0.03	-0.04	+0.71
Abbey Nat FRN	02/02	5.587	AA	100.0357	4.87	+0.03	+0.59	+0.18
SFR								
EIB	01/08	3.750	AAA	104.4525	3.16	+0.02	-0.11	+0.95
Brit Columbia	02/02	3.250	AA	103.6277	1.95	+0.01	+0.03	+0.27
Hydro-Quebec	05/01	6.750	n/a	108.5778	2.60	+0.02	+0.05	+1.03
Gen Elect.	09/01	1.280	n/a	99.6777	1.55	+0.01	+0.04	-0.02
YEN								
IBRD (World Bk)	03/02	5.250	AAA	114.1908	0.46	+0.01	-0.04	-
Spain (Kingdom)	03/02	5.750	AA	115.6306	0.48	-	-0.05	+0.02
Cred Foncier	08/02	4.750	A	112.6191	0.93	-	-0.04	+0.47
Italy (Rep of)	07/99	0.516	AA	100.0449	0.14	-0.05	-0.07	+0.02
A$								
IBRD (World Bk)	02/08	6.000	AAA	101.9049	5.72	+0.04	-0.07	+0.23
Nw Sth Wales Tr	05/08	6.500	n/a	104.2434	5.76	+0.03	-0.05	+0.37
S. Aus Gov Fin	06/03	7.750	AA	107.4112	5.73	[illegible]	[illegible]	[illegible]
GMAC Aust	05/01	9.000	AA	106.7715	5.57	-	-0.10	+0.60

Standard & Poor's ratings. Yields: Local market standard. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Government Securities

[illegible]

UK Indices

[illegible]

FT Fixed Interest Indices

	Mar 22	Mar 19	Mar 18	Mar 17	Mar 16	Yr ago	High*	Low*
Govt. Secs. (UK)	115.97	116.16	116.32	116.19	115.72	104.13	117.17	93.31
Fixed Interest	154.52	154.91	154.91	154.89	154.24	140.59	158.45	115.32

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UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

CURRENCIES & MONEY

Euro suffers jitters in wary markets

MARKETS REPORT

By Alan Beattie and Melanie Carroll

The euro had a jittery day yesterday in thin trade as markets looked forward to the week's European Union summit.

The euro made big gains late in the London session after morning losses. But analysts said that, despite its dramatic appearance, the euro's jump was exaggerated by thin trade.

David Bloom, currency economist at HSBC, said it usually took more work for the euro to gain than lose ground.

"There was a small claw-back this afternoon after being only 100 points off its all-time low this morning. It took real fundamental stories to get the euro back up last week, then those gains drop away without an explanation," Mr Bloom said.

The euro closed in London at $1.091, up from session lows of around $1.085.

Meanwhile, the yen held its place in the spotlight yesterday, despite light holiday trading in Japan.

The currency opened in London on a one-month high, partly caused by the continued repatriation of funds leading up to the end of the fiscal year, and closed at Y117.9.

■ The EU summit may provide short-term support for the euro if Romano Prodi, the former Italian prime minister, is elected as Commission president, analysts said yesterday.

Paul Downs, European regional director at Thomson Global Markets, said the euro could reach around $1.10 next week if Mr Prodi is elected later this week.

"The Berlin summit could be make or break for the currency in the short term," Mr Downs said. "Mr Prodi is a respected figure and originally got Italy into the single currency. He's also one of the few Italian politicians untainted by scandal," he added.

■ Rising oil prices and recovering consumer confidence marginally outweighed a downward revision to economic growth yesterday, pushing expectations of interest rates higher.

Short sterling contracts opened lower after the GfK survey showed that consumers' confidence in March was the highest since last June.

The Bank of England cited strong survey evidence as one of the reasons for its decision to keep interest rates on hold in March.

Rate expectations were also boosted by the recent rise in oil prices. Falling energy costs have helped to keep consumer price inflation low in the UK as elsewhere in recent months.

But a downward revision to gross domestic product in the fourth quarter of 1998 helped short sterling to trim its losses.

By the close of trading in London, short sterling contracts at the front end of the strip were down only a couple of basis points, with the June contract continuing to price in interest rates falling to around 5 per cent.

Aongus Buckley of GNI in London said that he thought that level still looked somewhat optimistic, and that two 25 basis point cuts were unlikely by June. "I would prefer to be short rather than long June short sterling, priced where it is at the moment," he said.

■ The increase in crude oil prices as expectations grew of substantial supply cuts pushed oil-exporting currencies higher yesterday.

Traditional petro-currencies had wobbled at the end of last week as many in the market had wondered whether the OPEC agreement could be made to stick at a time when many oil exporters are desperate for export revenue.

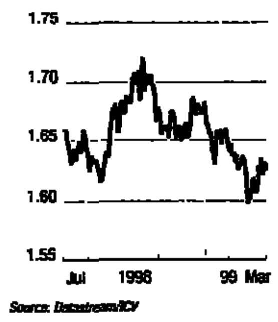
But yesterday's rise in oil prices as the prospect of a deal came closer consolidated recent gains in the Norwegian krone and pushed the Australian dollar higher.

However, the Mexican peso, less well known as a beneficiary of oil price rises, fell yesterday after rising towards the end of last week. The peso has recently appreciated against the dollar.

Some analysts were sceptical that the rally in oil prices would last. "There may be a slightly stronger will behind the OPEC cuts this time, but the oil price recovery still looks a little overdone," said Paul Bednarczyk of the economic consultancy 4Cast in London.

Sterling

Against the dollar ($ per £)



Source: Datastream/ICV

POUND IN NEW YORK

Mar 22	— Latest —	— Prev. close —
£ spot	1.6280	1.6285
1 mth	1.6273	1.6279
3 mth	1.6268	1.6274
1 yr	1.6298	1.6302

OTHER CURRENCIES

Mar 22	£	$
Czech Rp	56.9427 - 57.0212	34.9900 - 35.0210
Hungary	378.745 - 379.257	232.730 - 232.830
Iran	4884.20 - 4882.70	3000.00 - 3000.00
Kuwait	0.4932 - 0.4956	0.3043 - 0.3044
Peru	5.4729 - 5.4785	3.3630 - 3.3650
Poland	6.4130 - 6.4184	3.9400 - 3.9430
Russia	39.3521 - 39.6630	24.3100 - 24.3600
UAE	5.9770 - 5.9805	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Mar 22		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria*	(Sch)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium*	(BFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	(DKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finland*	(FM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France*	(FFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany*	(DM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Greece	(Dr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland*	(I£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy*	(L)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Luxembourg*	(LFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands*	(Fl)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	(NKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal*	(Es)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain*	(Pta)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	(SKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	(SFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK	(£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Euro	(€)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SDR†		[illegible]											
Americas													
Argentina	(Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brazil	(R$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	(C$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mexico	(New Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
USA	($)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific/Middle East/Africa													
Australia	(A$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong	(HK$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
India	(Rs)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Indonesia	(Rupiah)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Israel	(Shk)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	(Y)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Malaysia	(M$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New Zealand	(NZ$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Philippines	(Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Saudi Arabia	(SR)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Singapore	(S$)	2.8137	+0.0050	121 - 152	2.8158	2.8069	2.8056	3.5	2.7913	3.2	2.7494	2.3	-
South Africa	(R)	10.0497	-0.0397	411 - 582	10.0673	10.0409	10.1381	-10.6	10.2855	-9.4	10.879	-8.3	-
South Korea	(Won)	1990.39	+2.0100	787 - 292	1992.29	1987.38	-	-	-	-	-	-	-
Taiwan	(T$)	53.8884	-0.0385	344 - 423	53.9450	53.8202	53.9789	-2.0	54.2557	-2.7	55.1016	-2.3	-
Thailand	(Bt)	61.0995	+0.0878	275 - 715	61.1720	60.9680	61.1625	-1.2	61.4372	-2.2	63.0373	-3.2	-

† Rates for Mar 18. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. * EMU member. The exchange rates printed in this table are also available on the Internet at http://www.FT.com.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 22		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
Europe													
Austria*	(Sch)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium*	(BFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	(DKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finland*	(FM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France*	(FFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany*	(DM)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Greece	(Dr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland*	(I£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy*	(L)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Luxembourg*	(LFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands*	(Fl)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	(NKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal*	(Es)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain*	(Pta)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	(SKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	(SFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK	(£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Euro	(€)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SDR†		[illegible]											
Americas													
Argentina	(Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brazil	(R$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	(C$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mexico	(New Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
USA	($)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific/Middle East/Africa													
Australia	(A$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong	(HK$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
India	(Rs)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Indonesia	(Rupiah)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Israel	(Shk)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	(Y)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Malaysia‡	(M$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New Zealand	(NZ$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Philippines	(Peso)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Saudi Arabia	(SR)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Singapore	(S$)	1.7285	+0.0045	280 - 290	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South Africa	(R)	6.1738	-0.0192	700 - 775	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South Korea	(Won)	1222.75	+2.2500	150 - 400	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Taiwan	(T$)	33.1050	+0.0050	800 - 300	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Thailand	(Bt)	37.5350	+0.0850	000 - 700	37.5800	37.4600	37.59	-1.8	37.77	-2.5	38.686	-3.1	-

† SDR rate per $ for Mar 18. ‡ Official rate set by Malaysian government. The WM/Reuters rate for the valuation of capital assets is 5.43 MYR/USD, a discount of 30% on the official rate. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & Euro are quoted in US currency. J.P. Morgan nominal indices Mar 18: Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Pound table are derived from THE WM/REUTERS 4pm CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T. * EMU member. The exchange rates printed in this table are also available on the Internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

Mar 22	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	$2\frac{7}{8}$	$3\frac{1}{8}$	$3\frac{1}{8}$	$2\frac{31}{32}$	$2\frac{31}{32}$	-	3.00	3.00
Switzerland	$1\frac{1}{16}$	$1\frac{1}{4}$	$1\frac{1}{4}$	$1\frac{1}{4}$	$1\frac{9}{16}$	-	1.00	-
US	$4\frac{13}{16}$	$4\frac{7}{8}$	$4\frac{15}{16}$	5	$5\frac{1}{16}$	-	4.50	-
Japan	$\frac{1}{8}$	$\frac{1}{4}$	$\frac{1}{8}$	$\frac{1}{4}$	$\frac{1}{2}$	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	$4\frac{29}{32}$	5	$5\frac{1}{16}$	$5\frac{1}{8}$	-	-	-
US Dollar CDs	-	4.72	4.77	4.83	5.01	-	-	-
Euro Linked Ds	-	3	3	$2\frac{15}{16}$	$2\frac{15}{16}$	-	-	-
SDR Linked Ds	-	$3\frac{3}{32}$	$3\frac{1}{4}$	$3\frac{1}{4}$	$3\frac{1}{4}$	-	-	-
BBA Euro Libor	-	$3\frac{1}{8}$	$3\frac{1}{8}$	3	3	-	-	-
Euro Euribor	-	3.025	3.020	2.999	3.009	-	-	-
EONIA	2.19	-	-	-	-	-	-	-
EURONIA	2.1527	-	-	-	-	-	-	-

London Interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates. US$ CDs, Euro & SDR Linked Deposits (Ds).

INTERNATIONAL CURRENCY RATES

Mar 22	Short term	7 days notice	One month	Three months	Six months	One year
Euro	$2\frac{1}{8}$ - $2\frac{1}{32}$	$3\frac{1}{32}$ - $2\frac{29}{32}$	$3\frac{1}{8}$ - 3	$3\frac{1}{8}$ - 3	$3\frac{1}{32}$ - $2\frac{29}{32}$	$3\frac{1}{32}$ - $2\frac{29}{32}$
Danish Krone	$3\frac{1}{2}$ - $3\frac{1}{4}$	$3\frac{3}{8}$ - $3\frac{1}{4}$	$3\frac{3}{8}$ - $3\frac{1}{4}$	$3\frac{3}{8}$ - $3\frac{1}{4}$	$3\frac{3}{8}$ - $3\frac{1}{4}$	$3\frac{1}{2}$ - $3\frac{3}{8}$
Sterling	6 - $5\frac{3}{4}$	$5\frac{5}{8}$ - $5\frac{1}{2}$	$5\frac{9}{16}$ - $5\frac{1}{2}$	$5\frac{1}{2}$ - $5\frac{3}{8}$	$5\frac{1}{2}$ - $5\frac{3}{8}$	$5\frac{3}{4}$ - $5\frac{1}{2}$
Swiss Franc	$1\frac{5}{8}$ - $1\frac{1}{8}$	$1\frac{1}{4}$ - $1\frac{1}{8}$	$1\frac{1}{4}$ - $1\frac{1}{8}$	$1\frac{3}{8}$ - $1\frac{1}{4}$	$1\frac{3}{8}$ - $1\frac{1}{4}$	$1\frac{5}{8}$ - $1\frac{1}{2}$
Canadian Dollar	5 - $4\frac{7}{8}$	$5\frac{1}{8}$ - $4\frac{7}{8}$	$5\frac{1}{8}$ - $4\frac{7}{8}$	5 - $4\frac{7}{8}$	$5\frac{1}{8}$ - $4\frac{7}{8}$	$5\frac{1}{4}$ - $5\frac{1}{8}$
US Dollar	$4\frac{7}{8}$ - $4\frac{3}{4}$	$4\frac{7}{8}$ - $4\frac{3}{4}$	$4\frac{7}{8}$ - $4\frac{3}{4}$	$4\frac{15}{16}$ - $4\frac{13}{16}$	$5\frac{1}{8}$ - $4\frac{7}{8}$	$5\frac{3}{8}$ - $5\frac{1}{4}$
Japanese Yen	$\frac{1}{8}$ - $\frac{1}{16}$	$\frac{1}{8}$ - $\frac{1}{16}$	$\frac{1}{4}$ - $\frac{1}{8}$	$\frac{1}{4}$ - $\frac{1}{8}$	$\frac{3}{8}$ - $\frac{1}{4}$	$\frac{1}{2}$ - $\frac{3}{8}$
Asian $Sing	$1\frac{1}{2}$ - $1\frac{1}{4}$	$1\frac{3}{4}$ - $1\frac{1}{2}$	$1\frac{3}{4}$ - $1\frac{1}{2}$	2 - $1\frac{3}{4}$	$2\frac{1}{4}$ - 2	$2\frac{5}{8}$ - $2\frac{3}{8}$

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURIBOR FUTURES (MATIF)Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.11	97.10	-0.02	97.12	97.10	4,345	37,251
Sep	97.14	97.13	-0.02	97.15	97.12	3,438	27,343

■ THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.115	97.105	-0.020	97.115	97.095	25400	198548
Sep	97.130	97.130	-0.015	97.140	97.120	15223	189318
Dec	96.890	96.890	-0.020	96.900	96.875	8192	96349
Mar	97.030	97.030	-0.020	97.045	97.010	6434	81401

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.105	97.105	-0.020	97.105	97.100	65	105500
Sep	97.125	97.130	-0.015	97.125	97.115	10	93022
Dec	96.885	96.890	-0.020	96.885	96.875	134	83441
Mar	97.030	97.030	-0.020	97.030	97.030	7	84173

■ EURIBOR OPTIONS (LIFFE) €1m 100-rate

Strike Price	CALLS Jun	Sep	Dec	Mar	PUTS Jun	Sep	Dec	Mar
97000	0.140	0.205	0.140	0.235	0.035	0.075	0.250	0.205
97125	0.070				0.090			
97250	0.030	0.080	0.065	0.125	0.175	0.200	0.425	0.345
97375	0.015				0.285			

Est. vol. total, Calls 3464 Puts 610. Previous day's open int., Calls 287187 Puts 97846

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100-rate

Strike Price	CALLS Jun	Sep	Dec	Mar	PUTS Jun	Sep	Dec	Mar
97000	0.140	0.205	0.140	0.235	0.035	0.075	0.250	0.205
97125	0.070				0.090			
97250	0.030	0.080	0.065	0.125	0.175	0.200	0.425	0.345
97375	0.015				0.285			

Est. vol. total, Calls 0 Puts 300. Previous day's open int., Calls 184339 Puts 98044

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.600	98.605	-0.015	98.620	98.590	9379	94152
Sep	98.480	98.490	-0.020	98.510	98.480	2449	47896
Dec	98.170	98.170	-0.020	98.190	98.170	378	17604
Mar	98.200	98.210	-0.010	98.220	98.200	345	9005

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	99.80	-0.01	-	-	0	n/a
Sep	-	99.76	-	-	-	0	n/a
Dec	-	99.56	-	-	-	0	n/a

* LIFFE futures also traded on APT

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr1m 100-rate

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
98750	0.100	0.110	0.100	0.245	0.370	0.680
98875	0.050			0.320		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 3300 Puts 3500

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Mar 22		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	€
Belgium*	(BFr)	100	18.42	16.26	4.848	1.952	4800	5.463	20.93	497.0	412.5	22.18	3.958	1.661	4.078	2.703	318.8	2.479
Denmark	(DKr)	54.28	10	8.826	2.632	1.060	2605	2.965	11.36	269.7	223.9	12.04	2.149	0.901	2.213	1.467	173.0	1.346
France*	(FFr)	61.50	11.33	10	2.982	1.201	2952	3.360	12.87	305.6	253.7	13.64	2.435	1.021	2.508	1.662	196.0	1.525
Germany*	(DM)	20.63	3.800	3.354	1	0.403	990.0	1.127	4.316	102.5	85.07	4.575	0.817	0.343	0.841	0.558	65.75	0.511
Ireland*	(I£)	51.22	9.437	8.329	2.483	1	2459	2.798	10.72	254.6	211.3	11.36	2.028	0.851	2.089	1.385	163.3	1.270
Italy*	(L)	2.083	0.384	0.339	0.101	0.041	100	0.114	0.436	10.35	8.593	0.462	0.082	0.035	0.085	0.056	6.641	0.052
Netherlands*	(Fl)	18.31	3.373	2.977	0.888	0.357	878.6	1	3.831	90.97	75.50	4.060	0.725	0.304	0.746	0.495	58.35	0.454
Norway	(NKr)	47.78	8.804	7.770	2.317	0.933	2294	2.610	10	237.5	197.1	10.60	1.892	0.794	1.948	1.292	152.3	1.185
Portugal*	(Es)	20.12	3.707	3.272	0.976	0.393	965.8	1.099	4.211	100	82.99	4.463	0.797	0.334	0.821	0.544	64.14	0.499
Spain*	(Pta)	24.24	4.467	3.942	1.175	0.473	1164	1.324	5.074	120.5	100	5.377	0.960	0.403	0.989	0.655	77.29	0.601
Sweden	(SKr)	45.09	8.307	7.331	2.186	0.880	2164	2.463	9.436	224.1	186.0	10	1.785	0.749	1.839	1.219	143.7	1.118
Switzerland	(SFr)	25.26	4.653	4.107	1.225	0.493	1212	1.380	5.286	125.5	104.2	5.602	1	0.419	1.030	0.683	80.51	0.626
UK	(£)	60.22	11.09	9.792	2.920	1.176	2890	3.290	12.60	299.3	248.4	13.36	2.384	1	2.456	1.628	192.0	1.493
Canada	(C$)	24.52	4.518	3.988	1.189	0.479	1177	1.340	5.132	121.9	101.1	5.439	0.971	0.407	1	0.663	78.18	0.608
US	($)	36.99	6.816	6.015	1.794	0.722	1776	2.021	7.742	183.8	152.6	8.205	1.465	0.614	1.509	1	117.9	0.917
Japan	(Y)	31.37	5.779	5.101	1.521	0.612	1506	1.714	6.565	155.9	129.4	6.958	1.242	0.521	1.279	0.848	100	0.778
Euro	(€)	40.34	7.432	6.560	1.956	0.788	1936	2.204	8.442	200.5	166.4	8.947	1.597	0.670	1.645	1.091	128.6	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100. * EMU member

■ D-MARK FUTURES (CME) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5606	0.5580	-0.0013	0.6369	0.5574	5,519	31,670
Sep	0.5634	0.6436	+0.0813	0.6436	0.5645	-	1,195
Dec	0.5693	0.5882	+0.0227	0.5882	0.5623	-	96

■ JAPANESE YEN FUTURES (CME) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8645	0.8559	-0.0088	0.8647	0.8540	11,341	70,392
Sep	0.8888	0.8685	-0.0070	0.8930	0.8665	15	1,635
Dec	0.8866	0.8987	+0.0144	0.9034	0.8866	-	402

■ SWISS FRANC FUTURES (CME) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6885	0.6867	-0.0005	0.8101	0.6714	8,168	58,191
Sep	0.6936	0.6754	-0.0181	0.8195	0.6750	-	311
Dec	0.7000	0.7037	+0.0038	0.8299	0.6837	-	6

■ STERLING FUTURES (CME) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.6276	1.6254	-0.0016	1.6738	1.6220	5,561	54,599
Sep	1.6280	1.6472	+0.0198	1.6578	1.6180	-	1,251
Dec	1.5286	1.6570	+0.0286	1.6586	1.6130	-	30

UK INTEREST RATES

LONDON MONEY RATES

Mar 22	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6 - $4\frac{3}{4}$	$5\frac{3}{4}$ - $5\frac{1}{4}$	$5\frac{9}{16}$ - $5\frac{1}{2}$	$5\frac{1}{2}$ - $5\frac{1}{2}$	$5\frac{1}{4}$ - $5\frac{1}{8}$	$5\frac{3}{8}$ - $5\frac{1}{4}$
Sterling CDs	-	-	$5\frac{9}{16}$ - $5\frac{1}{2}$	$5\frac{1}{2}$ - $5\frac{1}{4}$	$5\frac{1}{4}$ - $5\frac{1}{8}$	$5\frac{1}{4}$ - $5\frac{1}{8}$
Treasury Bills	-	-	$5\frac{1}{2}$ - $5\frac{3}{8}$	$5\frac{3}{8}$ - $5\frac{1}{4}$	-	-
Bank Bills	-	-	$5\frac{1}{2}$ - $5\frac{1}{4}$	$5\frac{1}{4}$ - $5\frac{1}{8}$	-	-
Local authority deps.	$5\frac{1}{4}$ - $5\frac{1}{8}$	$5\frac{5}{8}$ - $5\frac{1}{4}$	$5\frac{9}{16}$ - $5\frac{1}{2}$	$5\frac{1}{2}$ - $5\frac{1}{4}$	$5\frac{1}{4}$ - $5\frac{1}{8}$	$5\frac{1}{4}$ - $5\frac{1}{8}$
Discount Market deps	$5\frac{1}{2}$ - $5\frac{1}{4}$	$5\frac{3}{4}$ - $5\frac{1}{2}$	-	-	-	-

UK clearing bank base lending rate 5½ per cent from Feb 4, 1999

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Mar 12, 4.8834pc. ECGD fixed rate Stg. Export Finance. Make up day Feb 26, 1999. Agreed rate for period Mar 24, 1999 to Apr 23, 1999, Scheme III 6.80pc. Reference rate for period Jan 30, 1999 to Feb 26, 1999, Schemes IV & V 6.550pc. Finance House Base Rate 6.0pc for Mar 1999.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.900	94.910	-0.010	94.920	94.870	21865	179881
Sep	95.000	95.005	-0.015	95.010	94.970	17357	186395
Dec	94.760	94.785	-0.015	94.790	94.740	5560	140928
Mar	94.850	94.885	-0.015	94.890	94.840	6221	132083
Jun	94.770	94.815	-0.015	94.820	94.770	4525	107067

Also traded on APT. All Open Interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
94750	0.220	0.355	0.330	0.060	0.100	0.285
94875	0.140			0.105		
95000	0.080	0.200	0.210	0.170	0.195	0.425
95125	0.045			0.260		
95250	0.025	0.100	0.125	0.365	0.345	0.590
95375	0.015			0.480		

Est. vol. total, Calls 12585 Puts 5731. Previous day's open int., Calls 422277 Puts 485834

EMS EUROPEAN CURRENCY UNIT RATES

Mar 22	Euro cen. rates	Rate against Euro €	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	353.109	321.55	+0	-8.94	9.39	60
Denmark	7.46038	7.4317	+0.0002	-0.38	0.00	3
NON ERM MEMBERS						
UK	0.653644	0.68770	-0.0031	2.15	-2.48	-

Euro central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Euro; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Euro central rate. 17/9/92: Sterling suspended from ERM. 16/3/98. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Apr	May	Jun	PUTS Apr	May	Jun
1.620	1.69	2.27	2.59	1.03	1.80	2.03
1.630	1.22	1.65	2.18	1.46	2.09	2.51
1.640	0.72	1.34	1.51	2.06	2.62	2.89

Previous day's vol., Calls 10 Puts 16. Prev. day's open int., Calls 837 Puts 1,368

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Apr	May	Jun	PUTS Apr	May	Jun
0.555	1.06	1.31	1.50	0.27	0.42	0.57
0.560	0.75	1.01	1.23	0.43	0.60	0.77
0.565	0.49	0.74	0.96	0.67	0.84	0.95

Previous day's vol., Calls 0 Puts 0. Prev. day's open int., Calls 125 Puts 119

■ THREE MONTH EURODOLLAR (CME) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.96	94.94	-0.01	95.00	94.95	37,613	463,326
Sep	94.84	-	-	94.84	94.83	53,674	452,775
Dec	94.47	-	-	94.48	94.25	23,360	343,192

■ US TREASURY BILL FUTURES (CME) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	95.62	95.61	-0.01	95.65	95.59	995	1,847

BASE LENDING RATES

	%		%		%
Adam & Company	5.50	Exeter Trust Limited	6.50	Smith & Williamson	5.50
Allied Irish Bank (GB)	5.50	●Robert Fleming & Co	5.50	Sun Bank	5.50
●Henry Ansbacher	5.50	Habib Bank AG Zurich	5.50	TSB	5.50
Banco Bilbao Vizcaya	5.50	Heritable & Gen Inv Bk	5.50	United Bank of Kuwait	5.50
Bank of Cyprus	5.50	C. Hoare & Co	5.50	Unity Trust Bank Plc	5.50
Bank of Ireland	5.50	●SG Hambros Bank & Trust	5.50	Whiteaway Laidlaw	5.50
Bank of India	5.50	Hongkong & Shanghai	5.50	Yorkshire Bank	5.50
Bank of Scotland	5.50	Investec Bank (UK) Ltd	5.50		
Barclays Bank	5.50	Julian Hodge Bank	5.50	● Members of London Investment Banking Association	
Brit Bk of Mid East	5.50	●Leopold Joseph & Sons	5.50		
●Brown Shipley & Co Ltd	5.50	Lloyds Bank	5.50		
Citibank NA	5.50	Midland Bank	5.50		
Clydesdale Bank	5.50	NatWestminster	5.50		
The Co-operative Bank	5.50	●Rea Brothers	5.50		
Coutts & Co	5.50	Royal Bk of Scotland	5.50		
Cyprus Popular Bank	5.50	Scottish Widows Bank	5.50		
Duncan Lawrie	5.50	●Singer & Friedlander	5.50		

COMMODITIES & AGRICULTURE

Crude oil steady ahead of Opec meeting

MARKETS REPORT

By Paul Solman in London and Robert Corzine in Vienna

World oil prices were steady ahead of today's meeting of the Organisation of Petroleum Exporting Countries.

As delegates gathered in Vienna, the benchmark May contract for Brent blend crude was $13.57 a barrel in late trading on London's International Petroleum Exchange, compared with Friday's close of $13.56.

The price has risen more than $3 in a little over a month on expectations that oil producers will make a concerted effort to control world supplies.

Leading producers agreed in the Hague earlier this month to shave more than 2m barrels from daily production, and today's Opec meeting is expected to ratify that deal.

The markets are keen to see whether the united front put up by Opec oil ministers since the signing of the Hague accord persists through today's meeting.

Much attention will be focused on Iraq, which is not a party to the latest agreement. One Iraqi official yesterday said the country had the ability to boost output even further this year, to around 3m barrels a day, although any rise beyond that level would require direct foreign investment.

Other Gulf Arab states appeared keen to play down the prospect of yet more Iraqi exports. They expressed confidence that rising prices would enable Iraq to fulfil its oil-for-food revenue target of $5.3bn every six months. Baghdad needs an average Basrah light price of $14 a barrel – which implies a New York crude price of about $18 a barrel or Brent at around $16 a barrel – in order to meet the revenue target.

Among base metals, aluminium continued its recent rally, with the three-month price closing yesterday at $1,272 a tonne on the London Metal Exchange, $14 higher than Friday's close.

Alcan Aluminium, the Canadian producer, said it was closing its Isle-Maligne smelter, trimming output by 90,000 tonnes.

Meanwhile, Australian gold and iron ore mining operations were disrupted by the tropical cyclone that has battered the north-west of the country, causing flooding in many areas.

White sugar prices plunged to their lowest for 12 years on the London International Financial Futures and Options Exchange.

In late trading, the most actively traded May contract was $195 a tonne, compared with Friday's close of $197.40. The price is about 30 per cent below its level just a year ago.

Fears over Brazilian exports continue to overhang the market. The weak Real has lowered costs for farmers, while Brazil has raised output to become the world's largest sugar producer.

Sugar exports for the 1998/99 season to the end of February were 7.6m tonnes compared with 6.9m tonnes at the same time last year, C. Czarnikow said in its latest Sugar Review.

On the demand side, Russia, the world's largest importer, is continuing to hold back from buying of sugar because of its financial difficulties. The country's imports have been forecast at 3m tonnes this season, against 4.1m in 1997/98.

Liffe cocoa futures fell again yesterday, the May contract ending at £807 a tonne for a loss of £23 on the day. May robusta coffee dropped below $1,500 a tonne to close off $20 at $1,495.

Australian coal prices set to fall

By Stephen Wyatt and Gwen Robinson in Canberra

Australian coal prices are expected to fall significantly over the next five years, despite stronger demand, and increasing volumes of coal will be traded on the spot market, according to the Australian government's commodities forecasting agency.

The forecasts for coal – Australia's largest commodity export earner – were given at the recent annual conference of the Australian Bureau of Agricultural and Resource Economics (ABARE) in Canberra.

Analysts at the conference predicted a continuing decline in coal production costs, in spite of stronger demand, while the overall volume of Australian coal exports would rise.

Plunging prices for coal, however, have triggered structural changes in the coal industry worldwide as well as in Australia.

For the Australian industry, there were more changes ahead, said Peter O'Connor, resources analyst at Credit Suisse First Boston Australia. This year would be particularly difficult following January negotiations between Australia and Japan that led to real US dollar price declines for coal contracts of between 15 and 20 per cent, depending on coal types.

The price cuts would drive down earnings while volumes remained under pressure and – importantly for the future of investment in coal facilities – confidence would probably sink to its lowest level in two decades, Mr O'Connor said.

However, an expected recovery in Asia, Australia's traditional market, over the next five years would help Australia's total coal exports. ABARE said exports would rise to 193.7m tonnes in 2004, from 162.6m tonnes last year, an increase of nearly 20 per cent, thanks to construction of new power utilities in Asia.

Of the total, thermal coal exports are forecast to rise to 101.5m tonnes in 2004 from 78.5m in 1998, a 30 per cent increase, due to reduced subsidies to high-cost coal producers in western Europe.

Australia's metallurgical (or coking) coal exports are also expected to increase 10 per cent to 92.2m tonnes in 2004 from 84.1m tonnes last year, with a forecast surge in demand after 2001 on the expected recovery in blast furnace steel production, especially in Asia.

Despite projected increases in coal export volumes, however, lower real coal prices will result in a decline in the real value of Australian exports from A$9.5bn in the year to June to about A$7.7bn in the year to June 2004, a fall of almost 20 per cent, ABARE said.

The total value of coal exports, meanwhile, is forecast to fall 8.5 per cent to A$8.7bn in 2004. In the past year, however, Australian producers have been able to cope with declining coal prices because of significant improvements in productivity, cost cuts and the weaker Australian dollar.

Productivity gains were primarily due to significant reductions in the coal workforce. In the current year, employment in Australian coal mines fell by 17 per cent while production increased by more than 7 per cent.

Higher-cost producers in countries including the US, however, have lost market share to Australian exporters, Mr O'Connor said

Pakistan cotton prospects cast shadow over economy

The fourth crop failure in five years has made meeting targets tied to an IMF loan package more difficult, says **Farhan Bokhari**

Shafi Niaz is once again faced with the uneasy prospect of dramatically changing his assessment of Pakistan's cotton harvest.

As head of the government's cotton assessment committee, Mr Niaz was confidently predicting a bumper crop just three months ago. But now, the official estimate has been lowered by almost 20 per cent while independent analysts say the loss could even be more.

"This has been an unexpected setback. The crop looked so good just a few months ago that we thought it may be a bumper," says Mr Niaz.

The fourth crop failure in five years is casting a grave shadow over the country's economic prospects and has posed questions over the the long-term outlook for Pakistan's largest crop.

Pakistan's economy is likely to feel the pinch on a number of fronts. Economists say meeting some of the targets of a recent IMF loan, which pulled the country back from the brink of a foreign debt default, may become more difficult.

Economic growth is likely to trail behind expectations and projections for tax receipts from agriculture may suffer. The IMF wants Pakistan to narrow its fiscal deficit through improved revenues. Cotton is Pakistan's largest crop while agricultural output contributes about a quarter of annual gross domestic product.

The cotton loss is also likely to hit industrial growth by affecting Pakistan's textile production, its leading industry. In years of cotton crop failures, textile profits have fallen because the cost of raw materials has risen towards late spring.

The latest estimates from the agricultural ministry in Islamabad say the cotton crop may be no more than 8.6m bales, each weighing 375 pounds, down from an initial target of 10.6m bales. However, cotton ginners, who buy raw cotton for processing before supplying textile factories, say it may be as low as 7m bales.

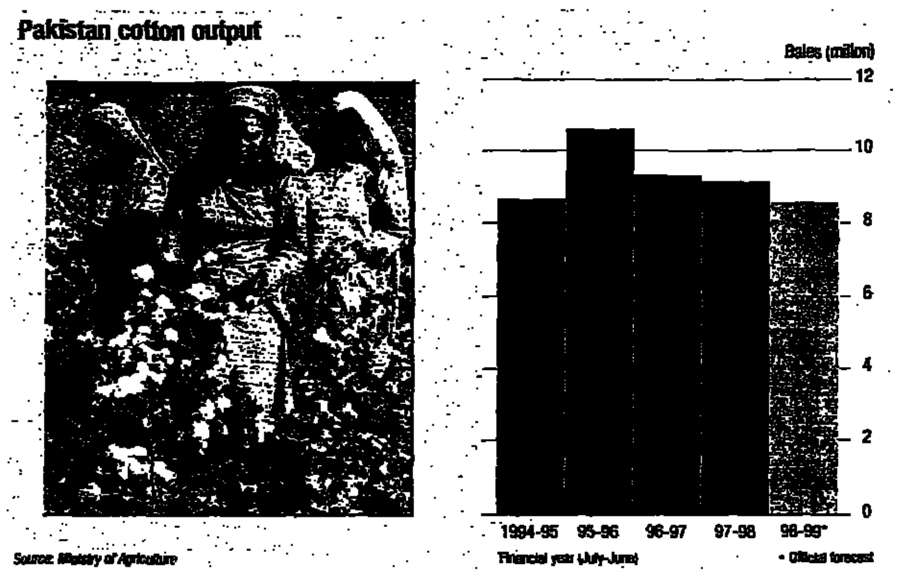
The weak harvest is the result of bad weather and pests. Pakistan's cotton farms experienced more than the usual fog this winter and night time temperatures last summer were higher than the tolerable range for cotton plants.

On top of that, a recent pest attack of heliothis, known as the "American boll-worm" or "Amrikee sundee" in local parlance, has also affected the harvest.

The damage has shocked farmers, who essentially see a long-term problem ahead. "Cotton seems to be finished unless a drastic change comes about," said Fakhr Imam, a member of parliament and a cotton farmer.

Farmers are turning to other crops, fearing continuing cotton failures. Many say a number of acute problems are looming over the outlook for the crop.

Pakistan cotton output



Source: Ministry of Agriculture

Continued lax application of laws to curb fraudulent diluting of pesticides and fertilisers has exacerbated the problem.

A wide range of manufacturers, suppliers and retailers are known to dilute the substances to boost profitability, hence weakening their effects.

While the government says it has begun to get tough in prosecuting such cases, farmers say the problem continues.

"The adulteration problem means that there's no assurance of quality of inputs," says one leading cotton farmer. "The outlook cannot improve unless there's a drastic change." Meanwhile, farmers also complain of having little opportunity to get certified seeds, screened and approved for cultivation.

Mr Niaz concedes that "these are the fundamental issues which only add to problems for farmers".

In preparation for next year's crop, the government has ordered agriculture ministry officials to prepare a plan for training farmers in pest scouting techniques. Also, a publicity campaign is expected to be launched in regions where farmers have given up sowing cotton.

"The plan involves encouraging farmers to grow cotton where its not done any more, and training them to spot pest attacks as soon as they occur," says a senior agriculture ministry official.

However, the task ahead is a challenging one. "Cotton has become an extremely sensitive and difficult crop to grow," says Mr Imam. "Much of the new knowledge required each year involves facing new pests in the field."

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1251.5-2.5	1271-2
Previous	1228-29	1247-48
High/low		1274/1254
AM Official	1248-9	1268-9
Kerb close		1271-2
Open int.	286,026	
Total daily turnover	158,485	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1100-05	1121-2
Previous	1093-98	1114-15
High/low		1125/1107
AM Official	1102-7	1122-3
Kerb close		1123-5
Open int.	8,994	
Total daily turnover	2,807	

■ LEAD ($ per tonne)

Close	501-2	502-3
Previous	504-5	505-6
High/low		507/501
AM Official	504-4.5	504-4.5
Kerb close		502-4
Open int.	35,537	
Total daily turnover	10,063	

■ NICKEL ($ per tonne)

Close	5155-60	5225-30
Previous	5125-35	5195-200
High/low		5235/5170
AM Official	5135-40	5205-10
Kerb close		5210-15
Open int.	73,334	
Total daily turnover	15,669	

■ TIN ($ per tonne)

Close	5370-80	5280-90
Previous	5350-60	5260-70
High/low		5300/5270
AM Official	5385-90	5280-85
Kerb close		5305-10
Open int.	19,422	
Total daily turnover	9,680	

■ ZINC, special high grade ($ per tonne)

Close	1020-22	1032-4
Previous	1021-22	1033-34
High/low		1035/1024
AM Official	1021-2	1032-3
Kerb close		1032-2.5
Open int.	93,965	
Total daily turnover	12,419	

■ COPPER, grade A ($ per tonne)

Close	1361-2	1388.5-9.0
Previous	1368.5-69.5	1395-96
High/low		1395/1380
AM Official	1363.5-4.0	1392-3
Kerb close		1393-4
Open int.	168,912	
Total daily turnover	40,459	

■ LME AM Official £/$ rate: 1.6277

LME Closing £/$ rate: 1.6288

Spot: 1.6284 3 mths: 1.6273 6 mths: 1.6273 9 mths: 1.6263

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	62.90	+2.00	64.00	61.50	532	700
Apr	64.10	+2.75	64.10	61.65	197	4,126
May	64.60	+2.75	64.55	61.80	5,579	42,908
Jun	64.90	+2.70	64.90	62.30	54	1,960
Jul	65.30	+2.70	65.45	62.75	184	9,630
Aug	65.65	+2.70	64.15	63.55	2	1,527
Total					7,722	79,271

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold (Troy oz)	$ price	£ equiv	SFr equiv
Close	284.20-284.70		
Opening	284.40-284.70		
Morning fix	284.500	174.862	261,699
Afternoon fix	284.300	174.825	261,209
Day's High	284.65-284.95		
Day's Low	284.10-284.40		
Previous close	283.70-283.90		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.23	6 months	4.09
2 months	4.26	12 months	3.75
3 months	4.24		

Silver Fix	p/troy oz.	US cts equiv.
Spot	311.521	507.00

Silver Lending Rates

1 month	2.25	6 months	1.00
2 months	2.00	12 months	0.75
3 months	1.75		

Gold Coins	$ price	£ equiv.
Krugerrand	285-289	175-177
New Sovereign	66-70	40-42

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	284.5	+0.4	-	-	532	-
Apr	284.8	+0.3	285.0	284.3	14,764	54,416
Jun	286.9	+0.2	287.2	286.4	6,030	43,487
Aug	288.0	+0.2	-	-	774	8,247
Oct	291.0	+0.2	291.1	291.1	3	3,337
Dec	292.9	+0.2	293.4	292.4	590	13,589
Total					23,281	162,762

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Apr	375.1	+3.4	375.5	372.0	596	10,652
Jul	375.7	+3.3	374.0	374.0	225	4,007
Oct	376.3	+3.3	377.0	377.0	23	-
Total					844	15,749

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Mar	359.80	+0.80	361.00	359.00	4	44
Jun	357.80	+0.80	361.00	357.20	312	2,307
Sep	352.80	+0.80	-	-	-	207
Total					316	2,833

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Mar	511.2	+6.2	513.0	507.0	174	695
May	510.7	+6.2	511.5	504.0	11,976	39,815
Jul	513.3	+6.3	513.0	508.0	830	18,217
Sep	515.2	+6.4	515.0	508.0	338	3,880
Dec	518.6	+6.6	517.5	513.0	127	8,655
Jan	519.1	+6.6	-	-	-	14
Total					13,606	76,297

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	15.16	-	15.42	14.95	38,699	25,880
May	15.32	+0.08	15.55	15.18	61,229	151.0k
Jun	15.29	+0.07	15.48	15.10	17,099	87,076
Jul	15.21	+0.07	15.42	15.06	7,892	41,201
Aug	15.09	+0.02	15.17	15.03	2,218	23,424
Sep	14.99	+0.03	15.03	14.98	1,624	19,842
Total					140,526	564,809

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
May	13.57	+0.01	13.70	13.39	16,988	89,103
Jun	13.56	+0.11	13.64	13.40	8,604	56,996
Jul	13.49	+0.06	13.61	13.39	4,022	24,183
Aug	13.41	+0.01	13.65	13.41	782	8,971
Sep	13.41	+0.01	13.56	13.41	652	13,547
Oct	13.50	+0.07	13.57	13.42	929	8,656
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	40.80	+0.51	41.20	40.20	11,671	30,402
May	40.50	+0.19	40.90	40.00	5,743	31,314
Jun	40.70	+0.25	40.70	40.20	2,902	21,065
Jul	40.90	+0.30	41.05	40.60	951	16,196
Aug	41.30	+0.35	41.60	41.20	630	13,832
Sep	42.00	+0.50	42.25	41.90	403	7,716
Total						25,541 172,202

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	122.25	-	123.75	120.75	10,299	33,554
May	121.50	+1.25	123.00	120.00	5,384	27,591
Jun	121.50	+2.00	123.25	120.75	2,263	18,387
Jul	122.50	+2.75	123.25	122.00	1,129	8,761
Aug	124.00	+3.00	124.50	123.50	375	8,759
Sep	124.75	+3.00	125.00	124.75	622	6,733
Total						20,880 116,300

■ NATURAL GAS IPE (1,000 therms; pence per therm)

Apr	9.480	-	9.470	9.420	410	3,790
May	9.360	+0.020	9.390	9.340	250	2,200

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	1.785	-	1.785	1.690	19,476	44,738
May	1.780	+0.061	1.795	1.720	6,813	30,575
Jun	1.810	+0.060	1.820	1.760	2,525	21,024
Jul	1.840	+0.075	1.850	1.795	903	17,773
Aug	1.880	+0.080	1.885	1.845	652	14,936
Sep	1.900	+0.067	1.910	1.875	535	15,241
Total						34,704 286,730

■ UNLEADED GASOLINE

NYMEX (42,000 US galls; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	47.65	+0.21	48.30	47.05	15,081	30,860
May	48.50	+0.33	48.95	47.80	9,072	29,296
Jun	48.70	+0.08	49.15	48.20	3,310	19,747
Jul	48.60	+0.02	49.05	48.20	1,009	10,677
Aug	48.20	-0.07	48.50	48.00	296	4,300
Sep	47.40	-0.32	47.95	47.40	341	4,000
Total						29,330 112,800

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	72.50	-	-	-	-	11
May	74.10	-	74.10	73.75	135	3,141
Jul	76.00	-	76.00	75.50	133	1,861
Sep	75.00	+0.25	-	-	-	176
Nov	76.75	+0.25	76.75	76.35	25	3,000
Jan	78.75	+0.25	78.50	78.50	18	535
Total					324	8,794

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Mar	272.00	+4.00	272.00	267.00	23	86
May	275.25	+0.50	281.00	273.50	6,041	43,209
Jul	286.50	+0.75	291.00	284.00	9,449	54,425
Sep	297.50	+0.75	301.00	294.50	1,584	6,019
Dec	311.25	+1.00	315.00	308.75	3,683	10,300
Mar	320.00	+0.50	322.00	320.00	100	2,609
Total						20,881 116,835

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Mar	228.75	+3.00	229.50	224.00	2,184	1,028
May	232.25	+3.25	232.75	227.50	43,553	126,730
Jul	238.75	+3.00	239.25	234.00	16,229	104,028
Sep	243.50	+2.00	243.75	240.00	2,876	24,316
Dec	250.25	+2.00	250.50	246.50	7,856	73,796
Mar	257.25	+3.00	257.75	249.00	636	10,413
Total						73,768 349,406

■ BARLEY LIFFE (100 tonnes; £ per tonne)

Mar	74.50	-	-	-	-	7
May	75.00	-	-	-	-	163
Sep	73.75	-	-	-	-	35
Nov	76.00	-	-	-	-	375
Jan	78.00	-	-	-	-	20
Total						599

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Mar	492.50	+8.25	492.50	483.00	432	342
May	499.25	+10.00	500.00	487.00	23,210	62,954
Jul	506.00	+10.50	506.00	495.00	5,540	46,204
Aug	511.00	+11.00	511.75	499.50	400	15,632
Sep	512.00	+11.25	513.50	501.00	219	6,394
Nov	521.25	+10.75	522.00	509.50	4,282	-
Total						34,521 165,648

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Mar	19.15	+0.26	19.18	18.00	425	352
May	19.43	+0.33	19.48	18.98	10,765	47,460
Jul	19.72	+0.38	19.76	19.22	4,265	33,237
Aug	19.86	+0.38	19.84	19.43	449	8,184
Sep	20.00	+0.33	20.00	19.60	180	6,084
Oct	20.12	+0.31	20.16	19.78	285	5,062
Total						19,677 127,834

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Mar	135.3	+0.8	135.8	133.5	1,113	427
May	138.2	+3.1	138.4	134.0	8,765	43,192
Jul	140.0	+3.0	141.0	136.2	2,611	26,015
Aug	141.5	+3.1	142.0	137.8	1,434	11,217
Sep	142.4	+2.8	143.0	138.5	409	9,386
Oct	143.6	+3.1	144.0	139.0	352	4,810
Total						15,763 128,128

■ POTATOES LIFFE (20 tonnes; £ per tonne)

Apr	295.0	-5.0	299.0	292.0	131	1,264
May	325.0	-5.0	327.0	323.0	29	73
Jun	335.0	-5.0	-	-	-	-
Nov	80.0	-5.0	-	-	-	-
Mar	120.0	-5.0	-	-	-	-
Total					177	1,501

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Mar	985	-10	-	-	-	150
Apr	995	-15	995	995	3	695
May	974	-16	980	974	4	366
Jul	865	-5	870	860	4	577
Oct	995	-5	-	-	-	438
Total					11	2,237

	Close	Prev
BFI	974	982

PULP AND PAPER

■ PULPEX OMLX (USS; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	451.00	+1.00	451.00	451.00	110	505
Sep	470.25	+0.75	-	-	-	76
Total					110	801

FUTURES DATA

All futures data supplied by CMS.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	829	-7	836	830	12	985
May	830	-8	840	829	1,004	49,657
Jul	847	-7	852	844	813	15,594
Sep	864	-6	869	860	428	27,678
Dec	887	-5	890	884	388	27,068
Mar	910	-5	911	905	621	16,783
Total						7,629 164,244

■ COCOA CSCE (10 tonnes; $/tonnes)

May	1285	-18	1219	1202	2,582	36,302
Jul	1228	-16	1238	1224	421	14,070
Sep	1250	-17	1259	1250	244	8,376
Dec	1285	-17	1298	1282	12	6,091
Mar	1320	-17	1330	1329	-	6,445
Total						3,274 76,997

■ COCOA (ICCO) (SDR's/tonne)

Mar 19	Price	Prev. day
Daily	955.18	960.21

■ COFFEE LIFFE ($ tonnes; $/tonne)

Mar	1739	-35	1758	1731	276	4,505
May	1515	-35	1545	1510	4,938	30,836
Jul	1525	-27	1550	1525	1,082	11,327
Sep	1533	-24	1553	1535	331	5,332
Nov	1533	-24	1555	1535	63	1,645
Jan	1530	-26	1545	1532	13	450
Total						6,644 55,302

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Mar	101.50	-1.05	103.50	100.75	50	75
May	102.10	-0.55	103.75	101.50	10,537	24,170
Jul	103.70	-0.50	105.35	103.25	1,646	8,563
Sep	105.50	-0.30	106.50	105.00	760	5,587
Dec	107.15	-0.15	108.00	106.60	257	2,507
Mar	108.70	+0.05	109.25	108.50	49	732
Total						8,228 43,834

■ COFFEE (ICO) (US cents/pound)

Mar 18	Price	Prev. day
Comp. daily	87.16	88.18
15 day average	89.45	89.69

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

May	187.4	-4.3	202.0	194.0	2,555	22,744
Aug	191.8	-3.2	195.0	188.6	1,605	13,252
Oct	189.2	-3.1	192.5	188.6	868	11,153
Dec	191.8	-3.5	193.3	189.2	353	4,096
Mar	197.1	-3.7	200.3	195.5	24	2,570
May	198.8	-3.4	201.0	198.5	15	1,369
Total						4,337 58,626

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

May	5.54	-0.18	5.66	5.40	6,528	68,903
Jul	5.38	-0.15	5.48	5.25	4,360	45,273
Oct	5.92	-	5.88	5.70	941	27,062
Mar	6.36	-0.12	6.45	6.25	608	14,734
May	6.42	-0.12	6.40	6.35	62	3,174
Jul	6.59	-	6.59	6.45	17	2,062
Total						28,000 175,609

■ COTTON NYCE (50,000lbs; cents/lbs)

May	61.00	-0.20	61.25	60.85	1,837	23,076
Jul	60.96	-0.04	61.15	60.65	474	14,312
Oct	60.50	-0.20	60.50	60.50	22	1,897
Dec	60.00	-0.02	60.15	59.90	630	16,109
Mar	61.10	-0.20	61.10	60.95	321	2,426
May	61.65	+0.20	61.65	61.65	1	1,117
Total						3,117 59,372

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

May	81.80	-1.35	83.25	81.80	1,151	17,360
Jul	82.75	-0.85	84.00	82.70	118	5,267
Sep	83.40	-0.90	84.70	83.80	25	2,535
Nov	84.20	-0.70	85.30	84.05	92	2,198
Jan	85.85	-0.55	-	-	-	1,179
Mar	87.85	-0.30	-	-	5	312
Total						1,225 29,216

VOLUME DATA

Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	66.650	-0.500	67.200	66.425	5,137	43,498
Jun	63.875	-0.450	64.450	63.725	3,576	40,304
Aug	62.475	-0.325	62.825	62.325	902	16,774
Oct	64.275	-0.225	64.575	64.150	1,086	10,602
Dec	65.100	-0.275	65.350	64.975	267	4,376
Feb	67.500	-0.250	67.750	67.450	115	1,418
Total						11,527 116,742

■ LEAN HOGS CME (40,000lbs; cents/lbs)

Apr	42.800	+0.625	43.250	41.950	2,768	11,367
Jun	55.100	+0.625	55.200	53.900	3,094	14,746
Jul	55.950	+0.400	56.050	55.100	817	4,952
Aug	56.375	+0.675	56.500	55.450	949	4,833
Oct	54.125	+0.350	54.250	53.550	424	3,494
Dec	54.850	+0.200	54.950	54.350	61	2,909
Total						11,195 43,888

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Mar	51.300	+1.000	50.800	49.950	2	77
May	51.450	+0.550	51.950	50.000	820	2,902
Jul	52.600	+0.750	52.950	51.200	80	1,215
Aug	51.850	+0.625	52.300	51.700	11	386
Total						1,177 4,710

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM

(99.7%) LME	May	Aug	May	Aug
1250	47	77	25	39
1300	23	52	52	62
1350	10	89	89	94

■ COPPER

(Grade A) LME	May	Aug	May	Aug
1350	67	126	13	31
1400	53	95	29	49
1450	30	70	79	73

■ COFFEE LIFFE

	May	Jul	May	Jul
1550	192	24	1	77
1600	142	12	1	115
1650	92	6	1	159

■ COCOA LIFFE

	May	Jul	May	Jul
800	25	53	18	28
825	8	31	31	54
850	4	21	72	71

■ BRENT CRUDE IPE

	May	Jun	May	Jun
1300	-	-	35	-
1350	-	-	-	-
1400	36	-	-	-

Due to technical problems some data shown is for 19/3

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$13.25-3.33	+0.190
Brent Blend (dated)	$13.34-3.37	+0.235
Brent Blend (May)	$13.62-3.65	+0.255
W.T.I.	$15.36-5.31	+0.175

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Unleaded Gasoline	$143-146	+4
Gas Oil	$124-125	+1
Heavy Fuel Oil	$59-60	+2
Naphtha	$122-124	
Jet fuel	$136-137	+2.5
Diesel	$133-134	+2

■ NATURAL GAS (Pence/therm)

Bacton (Apr)	9.35-9.40	

Petroleum Argus. Tel: London (0171) 359 8792

■ OTHER

Gold (per troy oz)♣	$284.45	-0.90
Silver (per troy oz)♣	507.00c	+3.50
Platinum (per troy oz.)	$373.00	+2.50
Palladium (per troy oz.)	$359.00	+4.00
Copper	67.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	19.05r	
Tin (New York)	263.5	
Cattle (live weight)	91.58p	+1.24*
Sheep (live weight)	97.91p	+6.67*
Pigs (live weight)	49.15p	-18.43*
Lon. day sugar (raw)	$162.20	
Lon. day sugar (wte)	$213.30	
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£95.50	
Wheat (US Dark North)	£121.50	
Rubber (Apr)♥	42.75p	
Rubber (May)♥	43.25p	
Rubber (KL RSS No1)	235.50m	
Coconut Oil (Phil)§	760.0	
Palm Oil (Malay.)§	452.5y	
Copra (Phil)§	460.0z	
Soyabeans (US)	147.0y	
Cotton Outlook 'A' index	56.55	
Wooltops (64s Super)	302p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Mar. z Apr/May. † Apr. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. (Based on 1 Livestock Auction replaced Premium on March 1999; 633 head)

INDICES

■ Reuters (Base: 18/9/31 = 100)

Mar 22	Mar 19	month ago	year ago
1374.2	1381.4	1427.2	1681.7

■ CRB Futures (Base: 1967 = 100)

Mar 19	Mar 18	month ago	year ago
188.12	187.56	-	-

■ GSCI Spot (Base: 1970 = 100)

Mar 19	Mar 18	month ago	year ago
144.41	145.25	137.41	182.48

LME WAREHOUSE STOCKS (tonnes)

Aluminium	+125	to	815,800
Aluminium alloy	-2,120	to	76,360
Copper	-2,050	to	604,850
Lead	-125	to	164,425
Nickel	-84	to	57,384
Zinc	-700	to	304,775
Tin	-5	to	9,180

Minor Metals from Metal Bulletin

European free market, $ per pound in warehouse. Antimony: 99.6%, $ per tonne, 1,390-1,450 (1,430-1,485). Bismuth: min. 99.99%, tonne lots 3.10-3.25. Cadmium: min 99.95%, cents a pound, 20-24. Cobalt: MB free market, min. 99.8%, 17.30-18.20 (17.65-19.00), min. 99.3% 14.80-16.00 (15.20-16.10). Mercury: min. 99.99%, $ per 76 pound flask, 137-145. Molybdenum: drummed molybdic oxide, 2.60-2.65 (2.65-3.05). Selenium: min. 99.5%, 1.40-2.30. Tungsten ore: 33-44. Uranium: Nuexco, unrestricted exchange value 8.50 (8.60). Vanadium: min. 98%, 2.18-2.28 (2.15-2.40).

CROSSWORD

No.9,945 Set by GALAPAGOS

ACROSS

1 He goes after most fast food (6)
4 Bill's relations? (8)
10 Great danger afoot? (9)
11 Close to being drunk (5)
12 Wrong option taken in race (4)
13 Degree marker for paper on Roman leaders (10)
15 Tell about managed charge (7)
16 Hang around and see monarch without it (6)
19 Day to take in the first American place (6)
21 Series of letters at last gives lead, perhaps (7)
23 Fruit with defects returned to dig in, we hear (10)
25 Flower girl in play school (4)
27 Prance about pointlessly (5)
28 It belonged without having taken possession (9)
29 Won over press chief in silent revolution (8)
30 Reserved, we hear, but did not go (6)

DOWN

1 Searching interrogation rules out return of number one (8)
2 Explain printer's pie to alien (9)
3 Pay attention in the editorial meeting (4)
5 Weep over last broken tableware (7)
6 Exiles raise costs dreadfully (10)
7 Most of the drink-up is after dark (5)
8 Heavenly type of carer takes in Arthur, oddly! (6)
9 Support church cut (6)
14 Planet is successful in making fortifications (10)
17 Tastefully see about member with social worker (9)
18 Ways in which rejected woman could be left high and dry (8)
20 Very clean, but unproductive (7)
21 It's possible to lose money and be practical (6)
22 Self-love of archer (6)
24 Drive back from dance without parking (5)
26 Judgment about banker's authority (4)

Solution to Saturday's prize puzzle on Saturday April 3.
Solution to yesterday's prize puzzle on Monday April 5.

For solutions to today's crossword call 0906 843 0060. Calls cost 60p a minute.

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● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

FT MANAGED FUNDS SERVICE

Offshore Funds and Insurances

FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Gartmore Fund Managers Intl Ltd (z)

Royal Bank of Scotland Fund Managers (CI) Ltd

Royal Bk of Scotland Fd Mngrs (Jersey) Ltd

Fidelity Funds - Contd.

Lombard Odier Invest - Contd.

Schroder International Selection Fd - Contd.

Banque Internationale A Luxembourg - Contd.

JP Morgan

Julius Baer Group

Scudder Global Opportunities Funds - Contd.

LUXEMBOURG (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

AIM - Continued

Name	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Voss Net	172½	—	198½	41½	–	–	–
Wild ‡	30½	—	85½	30½	–	–	28.8
Weather Action	31	-½	97½	30½	–	–	–
Weeks Group ♣	2	+¼	4½	1½	–	6.9	8.7
West 175 Ents ♣	61½	—	67	42	–	–	–
West Bromwich Albion	£165	—	£145	£95	–	–	12.1
Western Select ♣	8¾	—	13	7¼	–	3.8	27.4
Westmount Energy ♣	17½	—	308	17½	–	–	ϕ
Willington ‡	60	—	85	60	–	10.0	2.4
Winchester	92½	—	112½	55½	–	–	48.4
World Telecom ♣	65	—	285	55	–	–	–
XKO	180	+1	179	111½	–	–	–
Xavier Computer	27½	—	27½	8	–	–	26.3
Yeoman	51½	—	81½	51½	–	–	ϕ

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1570 a year for each security shown, subject to the Editor's discretion.

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FT Cityline

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An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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For Retail Price Index details call 0906 843 0065

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

FTSE ends sans fizz, sans Peps, sans everything

MARKET REPORT

By Peter John

British cinema might have impressed the Oscar judges but in the UK stock market it was more a case of "exit, pursued by a bear" than *Shakespeare in Love*.

Neither the heralded flood of cash from private investors for the last personal equity plans, nor the prospect of lower interest rates were able to inject any pep into equities.

On a day when turnover ended well below the daily average, Footsie fizzled 10.4 lower to 6,152.8. The jaded mood also pervaded the FTSE 250, which fell 12.6 to 5,488.4. Only the SmallCap remained immune, closing 12.4 up at 2,399.1, with encouragement from two separate takeover announcements.

The augury was never good. On Friday night, after UK trading stopped, the Dow Jones Industrial Average lost its hold on the 10,000 level and dealers were expecting Footsie to open about 50 points lower yesterday morning.

"The fact that we did not fall that far on the back of Wall Street shows we're resilient and likely to go better. It's been a very steady performance," said Chris Stallard at WestLB Panmure.

With US valuations very much in mind, Footsie was 8 points lower after the first few minutes. It received a boost shortly afterwards when the latest UK gross domestic pruduct data came in slightly weaker than forecast. The year-on-year rise of 1.1 per cent was down from the previous figure and the consensus estimate, both of 1.3 per cent. The move added more weight to the argument that UK interest rates may fall when the Bank of England's monetary policy committee meets on April 7.

There is increasing confidence that they will fall to at least 5 per cent but strategists will be waiting for today's key retail price inflation figures to get a better picture.

Footsie hit its high of the day shortly after the figures were released. However, the rise was short-lived and by the end of the morning, the index was slipping again.

Range-bound over lunch, the market failed to attract the horde of hungry personal investors assumed to be waiting in the wings and finally stumbled when Wall Street slipped back during the first few minutes of US trading.

The subsequent recovery by Wall Street was too little too late to drag London's main index higher.

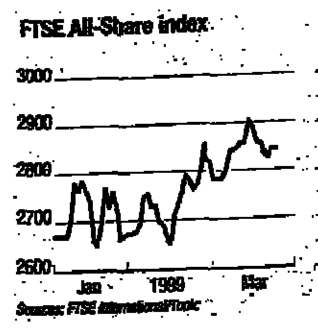
However, oil stocks rose across the board on expectation that today's Opec meeting in Vienna would rubber-stamp the recent *production-cutting deal* thrashed out in Amsterdam.

Also, hopes of corporate activity in the telecoms sector sprung from a $60bn takeover deal in the US between Comcast and MediaOne, which owns 37 per cent of Telewest.

Lower down the scale, the SmallCap took a more insular view. It reacted to the offer for Westminster Health Care from Canterbury Healthcare and, in the property sector, the £318m bid by Delancey Estates for Greycoat.

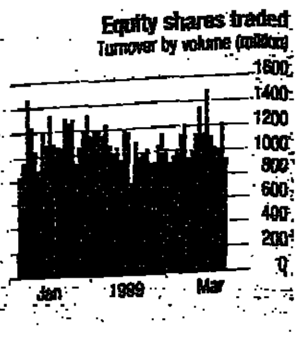
Nevertheless, shoots of optimism were thin on the ground and the *total turnover* of 923.6m shares evenly split between Footsie and non-Footsie stocks told a Winter's Tale.

FTSE All-Share index



Source: FTSE International/Topic

Equity shares traded
Turnover by volume (million)



Indices and ratios

FTSE 100	6152.8	−10.4	FT 30	3738.0	−15.4
FTSE 250	5488.4	−12.6	FTSE Non-Fins p/e	24.72	24.41
FTSE 350	2935.1	−5.3	FTSE 100 Fut Mar	6196.0	−21.5
FTSE All-Share	2843.04	−4.14	10 yr Gilt yield	4.64	4.82
FTSE All-Share yield	2.66	2.67	Long gilt/equity yld ratio	1.76	1.75

Best performing sectors

1	Water	+2.2
2	Retailers: Food	+1.7
3	Construction	+0.8
4	Diversified Industrials	+0.5
5	Support Services	+0.4

Worst performing sectors

1	Gas Distribution	−1.7
2	Extractive Industries	−1.6
3	Food Producers	−1.2
4	Leisure & Hotels	−1.0
5	Breweries: Pubs & Rest	−0.9

Telewest soars on bid talk

COMPANIES REPORT

By Joel Kibazo and Simon Bernholt

News of a $60bn US telecoms takeover triggered the return of bid speculation around cable television and telephone group Telewest Communications, sending the shares soaring.

The latest bid talk in the UK group came after cable broadcaster Comcast announced the takeover of communications specialist MediaOne, the third biggest US cable group.

MediaOne holds nearly 30 per cent in Telewest and the US deal again focused attention on the UK group, which has long been expected to feature in any restructuring of the local telecoms sector.

Hopeful investors sent the shares ahead 15¾ or 6.63 per cent to 253½p, making it the best performer in the FTSE 100. Volume reached 5.7m.

MediaOne is also joint owner with Cable and Wireless of mobile phone company One2One. Strong two-way business in C&W brought volume of 9.6m as the shares edged ½ forward to 741½p. In the rest of the sector, Atlantic Telecom improved 12½ to 255p.

Securicor jumped 28½ to 554p as reports suggesting BT was about to make an offer for the former's 40 per cent holding in mobile telephones group Cellnet continued to circulate.

In a recent note to investors, the team at SG Securities said: "We believe Securicor should be able to negotiate a Cellnet stake sale valuation of at least £4bn.

"BT has been talking down the valuation of Cellnet at recent investor briefings. This is entirely understandable. BT does not want to pay a market value for Cellnet." Demand for BT saw the shares appreciate 13 to £10.12.

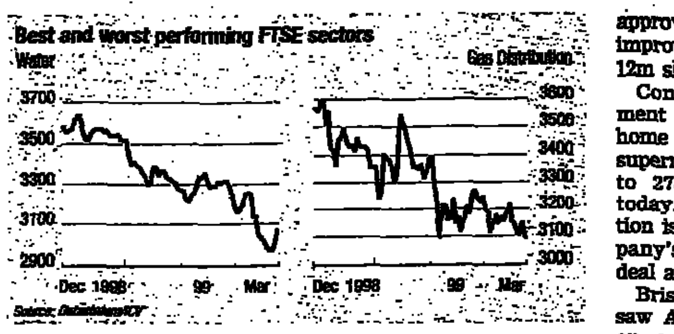
The two giants of the UK oils sector accounted for a sizeable slice of the day's total turnover as several brokers turned more positive on the prospects for international oil prices.

The move came as members of Opec gathered in Vienna for the start of its key production quota meeting.

Turnover in Shell Transport rose to 37m as the shares hardened 2½ to 421¾p, while 21m was dealt in BP Amoco as the shares appreciated 3 to £10.03.

Gordon Gray at Salomon Smith Barney is among those who have turned positive on the sector and the oil price.

Best and worst performing FTSE sectors



Source: Datastream/ICV

He said: "We are convinced the recently announced cuts are sufficient to erode the global inventory excess between now and the end of the year. This should be able to support higher prices by the end of this year."

Mr Gray now expects the price of Brent crude to be around $17 a barrel by the end of 1999.

Relief that British Energy may not after all pay heavily for two power plants from PowerGen sent the shares 31 ahead to 548¼p.

The Office of Fair Trading yesterday was said to have recommended that neither be sold to the nuclear generator as it already has 23 per cent of the UK generating market. Several analysts had already suggested the group might overpay for the two plants.

Sentiment was also boosted by a clutch of broker recommendations. They include one from Warburg Dillon Read that points out British Energy has underperformed the All-Share index *by 30 per cent over the past* quarter. Warburg raised its recommendation to "strong buy" saying there was upside of around 39 per cent in the stock. Its near-term share price target is now 720p.

The broker also raised PowerGen to a "buy" but the prospect that a power station sale might fall through saw the shares surrender 16 to 709½p.

A second regulatory rejection in as many months for pharmaceuticals giant Glaxo Wellcome knocked the shares.

The UK Medicines Control Agency yesterday rejected its application to reintroduce Romozin, a diabetes treatment, in the UK.

Serious side effects

Glaxo Wellcome and Sankyo Pharma decided to suspend marketing the treatment in 1997 following concerns over a significant increase in the number of reported serious side effects associated with the product in the US and Japan.

One analyst said: "There was always a risk this was *going to happen but many of* us had already discounted sales of the treatment from our numbers."

Glaxo was up 17 in early trading but ended 11 lower at £19.01. However, yesterday's news was seen as positive for rival SmithKline Beecham, whose Avandia diabetes treatment is expected to receive regulatory approval shortly. The shares improved 10¼ to 828½p as 12m shares changed hands.

Continued bullish sentiment on the strength of its home delivery business saw supermarket Iceland rise 25 to 275p ahead of results today. Also more information is expected on the company's television shopping deal announced recently.

Brisk trade in the sector saw Asda rise 4¾ to 150¾p on a volume of 17m and Sainsbury gain 14 to 376½p. The latter responded to renewed speculation of a bid from Ahold of the Netherlands.

Analysts said the sector was bouncing off long-term lows caused by macroeconomic factors and an Office of Fair Trading referral about the monopoly position of the big supermarkets.

Prudential Portfolio Managers, the fund management arm of the UK insurer, increased its stake in Polypipe to 7.34 per cent after the building materials company impressed fund managers on a Scottish roadshow. The shares rose 5¼ to 151½p and Merrill Lynch upgraded the stock to "accumulate".

Property company Greycoat was up 31½ to 200p after rejecting a £218m, 201p-a-share offer from Delancey Estates, down 3 to 97½p. Analysts said the bid by the George Soros-backed vehicle had put Greycoat in play and it may now look for a white knight.

Newspaper group Newsquest fell 10 to 367½p despite profits slightly ahead of market expectations at £65.8m. The *company* is *optimistic* for another good year, but analysts said there were worries over whether the *company could maintain its* level of advertising growth.

Paul Finnegan, managing director of Rage, the software company, sold 1m shares at 16¾p and the shares fell ¼ to 16½p after a good run.

FT 30 INDEX

	Mar 22	Mar 19	Mar 18	Mar 17	Mar 16	Yr ago	*High	*Low
FT 30	3738.0	3753.4	3718.4	3724.5	3778	3769.1	4004.9	2780.6
Ord. div. yield	2.79	2.77	2.79	2.78	2.73	2.93	4.22	2.72
P/E ratio net	22.77	22.88	22.76	22.86	23.22	24.21	25.41	15.80
P/E ratio nil	22.71	22.82	22.70	22.80	23.15	24	25.19	15.71

FT 30 since compilation: high 4004.9 [illegible] low 49.4 [illegible]

FT 30 hourly changes

8	9	10	11	12	13	14	15	16	High	Low
3753.4	3767.3	3751.6	3751.4	3752.2	3743.3	3744.0	3735.2	[illegible]	3769.8	3724.9

STOCK MARKET TRADING DATA

	Mar 22	Mar 19	Mar 18	Mar 17	Mar 16	Yr ago
SEAQ bargains	85,311	105,741	85,182	85,569	98,777	78,118
Equity turnover (£m)†	-	4277.6	4275.0	3866.1	3297.2	3279.4
Equity bargains†	-	86,053	62,785	82,059	60,380	71,899
Shares traded (mil)†	-	864.8	956.7	852.5	778.8	820.4
Total market bargains‡	-	92,104	75,142	76,290	72,716	-
Total turnover (£m)‡	-	5860.7	5315.3	4772.8	4240.5	-
Total shs traded (mil)‡	932.6*	1152.7	1167.1	1057.4	956.5	-
Tradepoint turnover (£m)	16.1	37.1	27.1	30.9	29.4	43.7
Tradepoint shs traded(m)	7.6	11.6	8.8	10.8	10.9	12.0

†Excluding intra-market and overseas turnover but including Crest turnover. *Uh only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	765	Total Highs	61	Total contracts	24,339
Total Falls	706	Total Lows	38	Calls	13,135
Same	1,385			Puts	11,204

Mar 22 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	6159.0	6190.0	−26.0	6247.0	6143.0	20635	184631
Sep	6258.0	6238.0	−27.0	6258.0	6258.0	25	3908
Dec	-	6288.0	-	-	-	0	0

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	5490.0	−13.0	-	-	0	7383

FTSE 100 INDEX OPTION (LIFFE) (*6153) £10 per full index point — Mar 22

[illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point — Mar 22

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FTSE GOLD MINES INDEX

	Mar 19	% chg on day	Mar 18	Year ago	Gross div yield %	Total return	52 week High	52 week Low
Gold Mines Index (29)	902.59	+0.47	898.80	1003.81	2.05	910.79	1351.57	701.58
Regional Indices								
Africa (9)	993.40	+0.46	988.90	945.54	4.17	1010.94	1488.04	765.63
Australasia (9)	1105.44	−0.76	1113.94	1265.24	2.84	1118.47	1690.53	815.93
Americas (11)	642.32	+0.78	635.78	1001.22	0.65	645.42	1317.41	647.69

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Market closed 22/3/99: South Africa.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	£ Stg Mar 22	Day's chge%	Euro index	£ Stg Mar 19	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	6152.8	−0.2	7158.7	6163.2	5947.0	2.52	2.26	1.85	26.49	45.72	2744.46
FTSE 250	5488.4	−0.2	6386.6	5501.0	5525.5	3.13	2.82	2.06	19.40	35.10	2433.41
FTSE 250 ex Inv Tr	5534.6	−0.2	6440.4	5545.3	5564.4	3.25	2.93	2.12	18.06	35.78	2434.57
FTSE 350	2935.1	−0.2	3415.4	2940.4	2858.1	2.62	2.35	1.97	24.26	21.33	2675.74
FTSE 350 ex Inv Tr	2941.8	−0.2	3423.0	2946.7	2862.5	2.63	2.36	1.98	24.03	21.51	1375.83
FTSE 350 Higher Yield	2826.2	−0.2	3288.7	2831.1	2938.0	3.52	3.13	1.84	19.33	25.07	2216.20
FTSE 350 Lower Yield	3043.2	−0.2	3541.2	3048.6	2898.1	1.69	1.55	2.25	32.92	17.02	2240.66
FTSE SmallCap	2399.11	+0.5	2791.73	2386.69	2610.47	3.44	2.94	2.04	17.77	13.50	2131.52
FTSE SmallCap ex Inv Tr	2309.84	+0.6	2757.87	2335.54	2603.01	3.65	3.14	2.16	15.83	13.21	2129.39
FTSE All-Share	2843.04	−0.1	3308.32	2847.18	2785.72	2.66	2.38	1.97	23.84	20.44	2630.45
FTSE All-Share ex Inv Tr	2853.12	−0.1	3320.04	2857.11	2792.52	2.67	2.39	1.99	23.51	20.66	1358.33
FTSE Fledgling	1302.98	+0.2	1516.22	1300.69	1410.54	3.65	3.05	1.36	25.28	8.26	1474.62
FTSE Fledgling ex Inv Tr	1315.24	+0.3	1530.48	1311.37	1430.93	4.16	3.48	1.40	21.45	8.64	1497.19
FTSE All-Small	1358.02	+0.5	1580.26	1351.83	1478.17	3.49	2.97	1.89	18.95	7.41	1538.98
FTSE All-Small ex Inv Tr	1357.23	+0.5	1580.26	1350.88	1498.72	3.75	3.20	1.90	18.71	7.46	1562.20
FTSE AIM	858.7	+0.7	998.9	851.1	1059.0	1.29	1.08	30.06†	6.12	1.83	798.40

FTSE Actuaries Industry Sectors

	£ Stg Mar 22	Day's chge%	Euro index	£ Stg Mar 19	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(18)	4657.00	+0.2	5419.13	4647.10	4958.97	2.90	2.69	1.16	36.04	26.99	2187.62
12 Extractive Industries(6)	3177.88	−1.6	3697.85	3228.62	3106.90	4.01	3.74	2.02	15.45	68.75	1048.42
15 Oil, Integrated(3)	5433.82	+0.4	6323.08	5412.78	5440.77	2.94	2.63	1.09	38.95	23.20	2820.24
18 Oil Exploration & Prod(9)	1669.51	+0.2	1977.64	1666.82	3444.34	1.72	1.53	‡	‡	7.97	1069.90
20 GEN INDUSTRIALS(186)	1990.46	−0.2	2316.23	1994.47	2224.29	3.47	3.16	2.39	15.09	18.66	1202.98
21 Construction(37)	1500.40	+0.8	1745.95	1491.60	1689.81	3.39	2.85	3.35	11.45	10.10	1371.06
22 Building Matls & Merchs(23)	1785.82	−0.2	2069.82	1789.85	1894.73	4.07	3.71	2.33	13.19	5.36	1100.64
23 Chemicals(26)	2037.82	−0.8	2371.44	2054.47	2834.47	4.70	4.50	1.55	18.78	47.63	1065.53
24 Diversified Industrials(4)	1041.58	+0.5	1212.04	1036.10	1458.73	6.29	5.55	1.06	18.44	5.26	893.26
25 Electronic & Elect Equip(25)	3057.53	-	3557.91	3056.85	2464.11	2.43	2.11	2.04	25.26	18.91	1725.18
26 Engineering(63)	2425.98	−0.4	2823.00	2436.39	3018.77	3.43	3.14	2.43	15.02	20.91	1610.91
27 Engineering, Vehicles(9)	4484.65	+0.2	5218.57	4477.45	3935.29	2.63	1.88	4.48	13.76	34.12	2917.86
28 Paper, Pckg & Printing(17)	1762.25	+0.1	2050.65	1760.82	2268.76	6.06	6.38	2.22	9.28	37.45	832.80
30 CONSUMER GOODS(91)	5827.46	−0.2	6781.16	5838.09	5648.12	2.28	2.18	1.81	28.75	44.67	2348.10
32 Alcoholic Beverages(6)	3619.88	−0.2	4212.29	3626.79	3976.81	3.01	2.69	2.33	17.83	47.14	1470.24
33 Food Producers(26)	3340.87	−1.2	3887.61	3380.57	3858.46	2.71	2.60	2.10	21.91	20.43	1647.33
34 Household Goods & Texts(13)	2009.04	−0.5	2337.82	2018.80	3406.27	5.05	4.77	1.68	14.71	34.23	877.29
36 Health Care(14)	2497.84	-	2906.39	2496.88	2397.72	2.14	1.52	1.97	29.69	2.45	1614.06
37 Pharmaceuticals(21)	10581.80	+0.1	12313.31	10568.68	8344.14	1.66	1.61	1.78	42.15	71.49	3838.24
38 Tobacco(2)	6705.79	−0.3	7802.63	6724.05	5131.89	4.86	4.62	1.46	17.66	43.60	1922.82
40 SERVICES(283)	3832.52	+0.2	4459.72	3828.53	3383.47	2.18	1.85	2.13	26.91	11.80	2136.81
41 Distributors(25)	1967.65	−0.4	2289.90	1975.45	2788.90	4.44	3.96	2.05	13.74	12.02	794.96
42 Leisure & Hotels(31)	3883.66	−1.0	4519.46	3922.08	3828.25	2.26	2.13	3.03	18.26	33.72	2240.63
43 Media(44)	5243.40	-	6101.30	5242.09	4438.42	1.87	1.73	2.29	28.27	34.39	2017.24
44 Retailers, Food(13)	2475.18	+1.7	2880.25	2432.67	2373.18	3.09	2.97	2.17	15.63	4.57	1709.92
45 Retailers, General(41)	2347.11	+0.3	2731.23	2339.11	2383.93	3.16	2.99	2.09	18.87	6.15	1496.34
46 Telecommunications(15)	5909.99	+0.2	6876.81	5894.77	3860.78	1.47	1.20	1.82	52.47	4.51	2914.92
47 Breweries, Pubs & Rest.(22)	3785.87	−0.9	4405.44	3818.58	4218.05	3.32	2.70	2.20	17.09	16.80	1973.81
48 Support Services(65)	5153.20	+0.4	5996.54	5130.75	4644.36	1.19	1.08	2.91	36.20	5.04	3418.85
49 Transport(28)	3575.80	−0.2	4160.99	3582.35	3424.87	2.90	2.50	1.99	21.85	15.48	1821.53
60 UTILITIES(28)	3778.54	−0.2	4396.91	3784.97	3815.29	4.11	3.58	1.84	16.53	11.51	1843.74
62 Electricity(7)	4229.79	−0.5	4922.20	4251.24	4274.30	4.58	3.77	1.31	21.00	9.64	2532.33
64 Gas Distribution(2)	3086.46	−1.7	3592.04	3147.42	2893.85	3.94	3.81	2.71	22.66	8.08	1604.38
68 Water(11)	3066.66	+2.2	3568.53	3001.98	3379.96	5.47	5.05	2.35	9.72	24.10	1947.71
69 NON-FINANCIALS(622)	2873.93	-	3344.26	2873.39	2758.64	2.61	2.33	1.84	24.72	15.32	2364.42
70 FINANCIALS(120)	5588.28	−0.6	6503.06	5623.32	5796.34	2.85	2.57	2.14	20.56	71.82	2651.78
71 Banks, Retail(12)	8712.82	−0.7	10138.70	8777.01	8411.82	2.87	2.61	2.22	18.86	129.67	3137.28
73 Insurance(20)	2291.65	−0.7	2666.69	2308.77	2774.47	3.00	2.88	2.11	19.72	29.54	1945.56
74 Life Assurance(6)	6683.01	−0.3	7776.71	6701.18	7527.20	2.83	2.69	1.98	22.31	65.30	3041.99
77 Other Financial(32)	4396.08	−0.6	5115.52	4424.86	4728.64	2.42	2.27	3.00	20.88	20.37	2776.84
79 Property(45)	1890.79	−0.1	2199.84	1891.58	2396.03	3.34	2.91	1.70	22.02	9.38	1266.09
80 INVESTMENT TRUSTS(110)	3859.39	−0.4	4489.82	3872.28	3929.02	2.18	1.82	1.15	49.73	20.37	1426.89
89 FTSE All-Share(850)	2843.04	−0.1	3308.32	2847.18	2785.72	2.66	2.38	1.97	23.84	20.44	2630.45
105 FTSE All-Share ex Inv Tr(712)	2853.12	−0.1	3320.04	2857.11	2792.52	2.67	2.39	1.99	23.51	20.66	1358.33
Information Technology	1823.31	−0.1	2121.70	1824.35	1448.69	0.50	0.44	4.84	50.82	1.64	1634.60

Hourly movements

	8.03	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	6155.2	6188.0	6157.9	6181.2	6178.9	6170.9	6167.4	6163.6	6200.1	6128.9
FTSE 250	5483.3	5501.8	5502.2	5497.6	5498.6	5497.8	5492.2	5486.5	5506.0	5485.9
FTSE 350	2938.7	2950.4	2938.3	2947.3	2946.4	2943.1	2941.3	2939.3	2955.0	2927.8
FTSE SmallCap	2391.02	2393.08	2394.92	2397.23	2397.57	2398.05	2397.95	2398.76	2399.11	2390.03
FTSE All-Share	2844.84	2859.77	2845.81	2854.15	2853.42	2850.41	2848.85	2846.86	2861.13	2835.19

Time of FTSE 100 Day's high: 10:06:15 Day's low: 8:27:15. [illegible]

Further information is available on http://www.ftse.com. † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. [illegible]

FTSE INTERNATIONAL

TRADING VOLUME

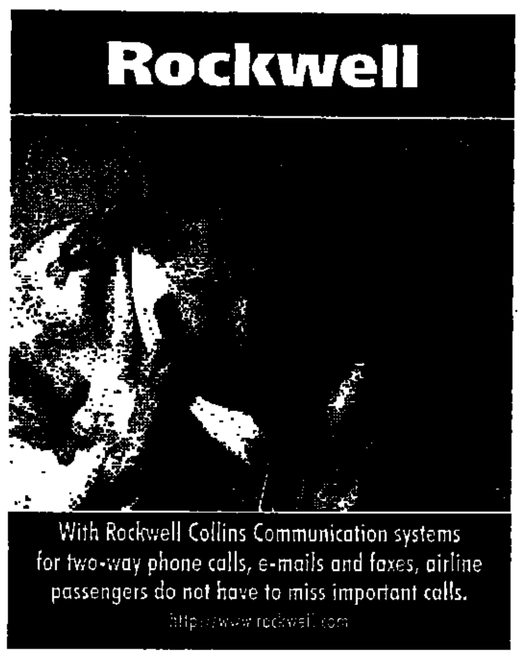
Major Stocks yesterday.

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €



FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MARCH 19 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY MARCH 18 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	215.90	0.5	196.47	159.84	227.55	227.77	0.6	3.31	214.91	195.47	158.98	225.25	226.33	219.96	163.86	214.18
Austria (21)	186.73	0.3	169.93	138.25	173.67	173.67	0.8	1.93	186.24	169.39	138.64	172.24	172.24	253.73	185.27	211.02
Belgium (22)	377.23	−0.4	343.28	279.29	343.49	343.49	0.1	1.96	378.84	344.57	282.01	343.03	343.03	446.95	304.03	304.03
Brazil (29)	126.55	1.0	115.16	93.69	133.38	430.92	0.0	5.39	125.31	113.97	93.28	131.33	430.74	289.34	89.32	282.41
Canada (113)	206.51	0.4	187.93	152.89	217.66	226.86	0.3	1.75	205.75	187.15	153.16	215.65	226.09	248.78	159.94	239.68
Denmark (34)	421.29	0.0	383.37	311.90	444.03	389.77	0.5	1.87	421.48	383.36	313.75	441.76	387.86	537.33	406.62	491.47
Finland (29)	649.65	1.7	591.19	480.97	741.97	741.97	2.3	1.56	638.51	580.76	475.31	725.19	725.19	661.25	338.49	375.58
France (74)	324.93	0.8	295.69	240.57	306.02	306.02	1.4	1.94	322.24	293.10	239.88	301.80	301.80	354.45	253.86	285.28
Germany (55)	263.82	1.1	240.08	195.32	245.53	245.53	1.7	1.80	260.91	237.31	194.22	241.47	241.47	325.61	226.35	262.53
Greece (36)	454.89	3.0	413.96	336.78	479.45	959.46	3.6	0.90	441.58	401.65	328.72	462.83	926.17	454.89	211.47	–
Hong Kong, China (86)	323.87	3.9	294.72	239.78	341.35	322.25	3.9	3.54	311.69	283.50	232.02	326.69	310.12	362.52	196.64	354.66
Indonesia (24)	45.74	3.8	41.63	33.87	48.21	249.18	2.1	1.17	44.07	40.09	32.81	46.19	244.00	64.52	19.04	45.82
Ireland (14)	540.25	2.5	491.63	399.98	548.74	548.74	3.1	1.87	527.04	479.37	392.33	532.34	532.34	605.85	396.15	520.39
Italy (53)	174.31	−0.1	158.62	129.05	230.71	230.71	0.5	1.44	174.45	158.67	129.86	229.61	229.61	192.64	128.68	150.17
Japan (445)	113.43	3.7	103.22	83.98	119.55	83.98	3.1	0.88	109.40	99.51	81.44	114.66	81.44	113.43	76.83	99.56
Mexico (29)	1428.50	−2.0	1299.95	1057.61	1505.62	15106.23	−1.7	1.70	1457.23	1325.44	1084.77	1527.33	15363.75	1733.73	787.15	1599.61
Netherlands (26)	506.93	1.1	461.31	375.31	466.69	466.69	1.7	2.04	501.22	455.89	373.11	458.86	458.86	562.73	394.92	466.34
New Zealand (18)	63.44	0.7	57.73	46.97	66.86	63.46	0.8	4.48	63.01	57.31	46.90	66.04	62.98	77.16	45.68	76.67
Norway (37)	241.07	0.2	219.37	178.48	254.08	252.58	0.5	1.91	240.51	218.76	179.04	252.08	251.39	357.71	181.86	325.85
Philippines (22)	90.32	−0.6	82.19	66.87	95.19	174.68	−0.8	0.93	90.88	82.66	67.65	95.25	176.18	106.98	42.48	103.16
Portugal (18)	219.49	0.4	199.74	162.50	275.68	275.68	1.0	1.19	218.54	198.78	162.68	272.96	272.96	299.39	194.13	–
Singapore (40)	211.54	−0.1	192.50	156.61	222.96	168.06	−0.2	1.58	211.74	192.59	157.62	221.93	168.42	246.74	102.45	246.74
South Africa (34)	209.18	1.9	190.36	154.87	220.47	283.15	1.0	3.40	205.26	186.70	152.80	215.14	280.29	346.20	151.55	291.89
Spain (30)	382.64	−0.2	348.20	283.29	441.46	441.46	0.4	1.58	383.43	348.75	285.43	439.91	439.91	435.19	290.81	351.65
Sweden (43)	514.03	1.7	467.77	380.57	541.78	622.09	2.2	1.98	505.56	459.84	376.34	529.89	608.62	628.19	379.18	556.03
Switzerland (30)	396.26	−0.3	360.60	293.38	417.85	359.22	0.3	1.19	397.43	361.49	295.85	416.55	358.28	441.65	307.73	381.59
Thailand (29)	25.12	1.7	22.86	18.60	26.48	36.52	1.7	2.39	24.70	22.47	18.39	25.89	35.91	33.66	8.15	32.43
United Kingdom (202)	392.19	0.8	356.90	290.36	413.36	356.90	0.8	2.67	389.22	354.02	289.74	407.95	354.02	401.84	307.96	390.56
USA (609)	535.55	−1.4	487.36	396.50	564.46	535.55	−1.4	1.24	542.89	493.79	404.13	569.01	542.89	542.89	390.12	445.46
Americas (780)	475.22	−1.3	432.45	351.83	500.87	403.44	−1.3	1.28	481.42	437.88	358.37	504.58	408.72	481.42	347.59	403.82
Europe (724)	357.71	0.7	325.52	264.83	377.02	339.92	1.1	2.01	355.27	323.14	264.47	372.36	336.32	386.24	282.63	340.06
Eurobloc (342)	102.28	0.7	93.08	75.73	103.03	103.03	1.3	1.75	101.54	92.36	75.59	101.72	101.72	113.92	81.53	–
Nordic (143)	499.22	1.4	454.29	369.60	526.17	521.85	1.9	1.84	492.56	448.01	366.66	516.26	512.23	555.97	380.04	485.25
Pacific Basin (719)	120.45	3.3	109.61	89.17	126.95	92.28	2.9	1.34	116.58	106.03	86.78	122.18	89.70	120.45	82.88	110.99
Euro-Pacific (1443)	218.83	1.5	199.13	162.01	230.64	185.25	1.8	1.80	215.61	196.11	160.50	225.98	182.29	221.79	166.00	206.50
North America (722)	513.17	−1.3	466.99	379.93	540.87	514.21	−1.3	1.26	519.90	472.88	387.02	544.91	520.95	519.90	374.92	492.32
Europe Ex. UK (522)	329.07	0.6	299.46	243.63	346.83	321.51	1.2	1.67	326.95	297.39	243.39	342.69	317.68	366.32	260.93	305.30
Europe Ex. Eurobloc (382)	98.82	0.6	89.92	73.16	104.15	100.43	0.8	2.28	98.18	89.31	73.09	102.91	99.59	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (180)	96.46	0.4	87.78	71.41	101.66	96.93	0.9	1.42	96.09	87.40	71.53	100.71	96.05	109.21	75.16	–
Pacific Ex. Japan (274)	192.63	1.8	175.29	142.61	203.02	197.42	1.9	3.25	189.13	172.03	140.79	198.23	193.74	216.04	128.26	212.15
World Ex. Eurobloc (1915)	110.90	−0.2	100.92	82.11	116.89	109.98	−0.3	1.47	111.15	101.10	82.74	116.50	110.27	111.15	83.09	–
World Ex. US (1648)	218.19	1.4	198.56	161.54	229.97	190.43	1.5	1.83	215.14	195.68	160.15	225.49	187.55	221.91	165.95	210.34
World Ex. UK (2055)	313.56	−0.2	285.34	232.15	330.49	283.49	−0.1	1.38	314.12	285.71	233.83	329.23	289.84	314.12	236.11	276.27
World Ex. Japan (1812)	423.67	−0.5	385.54	313.67	446.54	418.73	−0.4	1.59	425.91	387.39	317.05	446.40	420.41	427.99	320.58	376.78
The World Index (2257)	320.36	−0.1	291.53	237.18	337.68	290.32	0.0	1.52	320.63	291.63	238.68	336.05	290.41	320.63	242.36	285.90

Emerging markets: IFC investable indices

Dollar terms

Mar 19 Market		Day's chg %	% Chg since 31/12/98
Latin America			
Argentina	795.14	−0.4	−0.3
Brazil	263.32	+0.7	−4.3
Chile	506.57	+1.0	+12.2
Colombia[1]	379.36	+1.7	−13.7
Mexico	595.01	−1.9	+23.6
Peru[2]	142.11	+1.0	+5.8
Venezuela[3]	357.07	−0.0	−21.2
East Asia			
China[4]	24.57	+1.5	−6.1
India[7]	77.02	−0.1	+20.0
Indonesia[5]	22.10	+3.8	−8.7
Korea[2]	55.57	+5.9	+4.8
Malaysia	78.49	−0.1	−11.3
Pakistan[8]	105.51	−0.2	+11.6
Philippines	124.70	−0.6	+1.3
Sri Lanka[10]	65.38	+0.3	−20.6
Taiwan, China[6]	128.25	+1.3	+10.7
Thailand	63.06	+1.1	−0.2
Europe			
Czech Rep	43.73	+1.6	−13.8
Greece	816.67	+2.7	+31.9
Hungary[11]	346.50	+0.9	−12.2
Poland[12]	507.06	+2.7	−3.2
Portugal	250.55	+0.7	−14.2
Russia	42.25	+1.5	+80.2
Slovakia	35.65	−0.8	−18.2
Turkey[14]	214.14	+2.2	+46.4
Mideast/Africa			
Egypt	71.77	−0.0	+11.3
Israel	118.69	−0.0	+16.1
Jordan	233.47		+7.8
Morocco	159.62	−1.0	−4.8
S Africa[13]	148.17	+2.5	+18.3
Zimbabwe[15]	123.28	+0.9	+17.0
Regions			
Composite	205.39	+1.3	+10.0
Latin America	450.35	−0.3	+7.3
Asia	112.94	+2.6	+5.6
EMEA	132.23	+1.8	+15.7
Europe	173.38	+2.0	+15.8
Eastn Europe	62.33	+1.9	+7.2
ME & Africa	62.02	+1.7	+15.7
Comp + Malay	205.66	+1.2	+8.5
Asia + Malay	110.36	+2.1	+2.1

Base date: Dec 1988=100 except those noted which are (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1993; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Mar 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993. Latest indices were unavailable for this edition.

PACIFIC

AFRICA

AMERICAS

NEW YORK STOCK EXCHANGE PRICES

4 pm close March 22

1998/99 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Ch'ge Prev. Close
		- A -								
32 3/16	14 1/4	AAR	0.34	2.0	12	419	17	16 5/8	16 5/8	-1/4
55 1/2	28 1/4	AMP	1.08	2.0		14937	u55 1/4	55 1/4	55	-1/16
89 5/8	45 1/16	AMR			8	13411	60 11/16	57	57 1/8	-3 1/8
26 5/8	13 5/8	ASA	0.60	3.5	11	257	17 1/2	17 1/16	17 1/16	-1/16
51 1/8	32 1/2	AbbtL	0.60	1.2	34	12073	48	47 7/8	48	+1/16
16	7 5/8	AbnAMX x	0.40	4.1	5	336	9	9	9	
37	25	ABM Ind	0.56	2.1	16	186	27	26 7/8	26 7/8	-1/8
25 1/4	13 7/8	Acptnceln			6	125	15 5/8	15 1/4	15 1/2	+1/16
43	24 5/8	ACE Ltd	0.36	1.1	8	3949	32	31	31 1/4	
11 1/2	7 5/8	ACM Gvt In x	0.90	10.4	9	404	8	8 5/8	8 7/8	
8	7	ACM GvtOpp x	0.63	8.5		188	7	7	7	+1/16
10	7	ACM Man x	1.02	11.4		144	9	8	9	+1/8
6	3	Acme Elect			7	30	4	4	4 1/4	-1/16
10 5/8	1/8	Acme Mills				20	1/4	1/4	1/4	-1/32
29 5/8	19 1/4	ACNielsen			27	993	24	24 1/4	24 1/4	+1/16
20	12 5/8	Acxiom			20	618	14	14 1/4	14	
29 1/4	21	Adams Expr	0.55	2.0	1	280	27	27	27	+1/16
33	12 1/4	AdelAc				5209	16	16	16	+1/8
33 1/4	14 1/8	Advest Gp	0.16	0.8	8	141	21 1/4	20	20 1/4	-1
33 5/8	18	Advo Inc			18	317	18 1/2	17 7/8	18	-1/16
130 1/4	44	Aegon	1.37	1.4	40	608	97	96 1/4	96 1/4	-1 1/16
19 1/4	6 1/2	Aerflx				1448	13	13	13	-1/16
72 1/4	22	Aero-V	0.88	1.5	16	1525	57	57	57	-1/16
58	23	AES Corp			22	4844	39	38	38 1/4	-1/2
91	60	Aetna	0.80	1.0	15	3744	83 1/2	80	82	+1 1/2
51	33	AffCom			23	1514	38	36 1/2	37	-1 1/8
61	22	Aflac	0.36	0.5	38	7389	u52	50 1/4	51	+1
30 1/4	5 1/4	AGCO	0.04	0.6	6	9084	6	6 1/2	6 1/2	+1/16
23 1/2	17	AGL Res	1.08	5.8	14	470	18	18 1/4	18 1/2	-1/16
45 5/8	29	AirPrG	0.68	2.0	13	10004	33	31 7/8	33	+1/16
42	14 1/4	Airtran Frt	0.18	0.5	11	4957	32 1/2	30	30 1/2	-1 1/2
10	8	Airgas			22	1248	9	8 1/2	8	-1/8

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Financial Times Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. § Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Mar 19	Mar 18	Mar 17	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9903.55	9997.62	9879.41	9997.62 (18/3/99)	7539.07 (31/8/98)	9997.62 (18/3/99)	41.22 (8/7/32)
Home Bonds	104.49	104.44	104.69	107.17 (9/12/98)	104.13 (25/2/99)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3338.48	3433.07	3336.79	3686.02 (16/4/98)	2345.00 (8/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	303.94	306.16	302.41	320.51 (8/10/98)	262.66 (9/1/98)	320.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's high 10158.57(10060.82) Low 9856.37 (9776.17) (Theoretical)
Day's high 10085.31(10001.51) Low 9899.94 (9845.83) (Actual)

Standard and Poors	Mar 19	Mar 18	Mar 17	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1299.29	1316.55	1297.82	1316.55 (18/3/99)	927.69 (9/1/98)	1316.55 (18/3/99)	4.40 (1/6/32)
Industrials	1558.09	1578.98	1559.78	1578.98 (18/3/99)	1077.40 (9/1/98)	1578.98 (18/3/99)	3.52 (30/6/32)
Financial	142.37	144.64	141.19	147.69 (14/7/98)	95.80 (8/10/98)	147.69 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	610.68	617.61	610.65	617.61 (18/3/99)	477.20 (8/10/98)	617.61 (18/3/99)	4.64 (25/4/42)
Amex Comp	711.87	714.96	715.83	753.67 (22/4/98)	563.75 (8/10/98)	753.67 (22/4/98)	524.30 (16/7/98)
NASDAQ Cmp	2421.49	2462.96	2428.97	2510.09 (1/2/99)	1419.12 (8/10/98)	2510.09 (1/2/99)	54.87 (3/10/74)
Russell 2000	396.58	399.55	398.43	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Mar 19	Mar 12	Mar 5	Year ago
Dow Jones Ind. Div. Yield	1.60	1.60	1.59	1.57
	Mar 17	Mar 10	Mar 3	Year ago
S & P Ind. Div. yield	1.11	1.12	1.17	1.39
S & P Ind. P/E ratio	40.63	40.71	38.32	29.80

US DATA

MARKET ACTIVITY

Volume (million)	Mar 19	Mar 18	Mar 17
NYSE	822.200	831.040	756.047
Amex	29.757	24.664	24.814
NASDAQ	1060.48	943.826	859.481

NYSE	Mar 19	Mar 18	Mar 17
Issues Traded	3,559	3,541	3,547
Rises	1,169	1,585	1,364
Falls	1,814	1,356	1,604
Unchanged	579	620	579
New Highs	60	48	41
New Lows	95	71	84

NYSE TRADING ACTIVITY — Volume : 822,280,000

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
AmOnLine	27,345,400	119½	+3¼
Compaq	21,784,200	30¼	−1⅛
AT&T	14,607,800	79	−3⅛
PrMorr	10,623,300	41	
BosSci	9,586,200	41½	+2⅝
GenElec	9,285,600	112	+1⅝
Ctgrp	8,789,600	64⅛	−⅛
IBM	8,245,900	168¼	−9⅛
LucentTch	8,093,600	100⅞	−1⅞
WalMrt	5,862,200	94¾	−3¼

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Tktmx	24¾	+4¾	+24.4
Gucci	80½	+10½	+15.0
NikeB	62¼	+7⅛	+13.9
CooprCo	15¾	+1⅜	+9.2
Downs			
Pep BoysM	17⅞	−2½	−12.4
Best Buy	50¾	−4¼	−7.8
Brinkerlnt	25¼	−2¼	−7.6
CmpSci	59⅞	−4⅞	−7.4

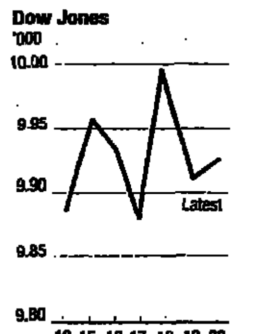
NASDAQ TRADING ACTIVITY — Volume :1,060,478,000

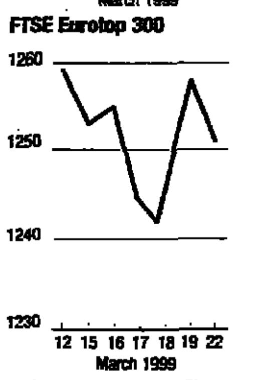
ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
DellCmp	33,687,800	40¼	−2
CmbTch	32,377,900	11¼	−9⅛
FORESy	28,347,800	17	+2½
Oracle	28,010,700	27⅛	−2⅛
NtwkAs	25,716,400	28¼	−4⅜
Mcsft	22,964,700	171⅜	−1¼
Intel	17,541,200	119	−2⅞
CiscoSys	16,084,500	104½	−2¾
MCIWcm	12,580,800	81½	−2¼
Egghead	11,488,300	19⅞	−2⅜

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
FORESy	17	+2½	+17.2
DoubleClic	179¾	+22¼	+14.0
ExodusComm	141	+14¾	+11.8
Realnetwks	141¾	+14¾	+11.6
Downs			
CmbTch	11¼	−9⅛	−45.8
Mastech	11⅞	−2⅜	−17.4
RickCapHd	13⅝	−2⅛	−13.5
NtwkAs	28¼	−4⅜	−13.0





JAPAN

	Mar 22	Mar 19	Mar 18	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Nikkei 225	closed	16378.78	15717.92	17264.3	12880	38915.9	85.25

Day's high: -- Day's low: --

TOKYO TRADING ACTIVITY — Volume : 867,310,000

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Sakura	31,099,000	386	+20
MitTrB	21,684,000	195	+19
NecJpSc	17,375,000	300	+45
FujiBk	16,702,000	750	+35
ShokJk	16,074,000	168	−35
SumTrB	15,504,000	584	+59
SumMtl	15,343,000	143	+11
NikkoS	15,023,000	577	+45
NKK	13,865,000	81	+4
Nomura	12,446,000	1375	+74

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Teikken	187	+35	+21.6
MbSit	110	+18	+19.6
Sakyo	521	+80	+18.1
NichCp	165	+25	+17.9
Downs			
ShokJk	166	−35	−17.4
MbChem	310	−18	−5.5
DNpTor	208	−12	−5.5
ShzBk	1290	−67	−4.9

GERMANY

	Mar 22	Mar 19	Mar 18	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DAX	5027.06	5099.48	5013.62	6171.43	3896.08	6171.43	931.18

Day's high 5076.36 Day's low 5028.06

FRANKFURT TRADING ACTIVITY — Volume : (u)

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Cmmzbk	451,344	28.35	+0.3
VW Pf	380,404	35.15	−0.55
Lufthn	326,458	21.05	−0.75
DaiChr	313,165	84.35	−1.9
Dt Bk	293,865	51.7	−0.4
BASF	292,602	34.2	−0.6
Bayer	229,913	35.5	−0.85
Contntl	220,447	21.8	+0.85
Siemns	214,230	62	−0.4
H'chst	177,723	41.5	−1.9

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
OldWrk	75	+4	+5.6
Contntl	21.8	+0.95	+4.6
Linde	536	+19	+3.7
Grrshm	15.65	+0.55	+3.6
Downs			
Phoenx	14.3	−0.9	−5.9
FlxmPf	33	−2	−5.7
Metro1	33	−2	−5.7
Drgwk	12.45	−0.6	−4.6

FRANCE

	Mar 22	Mar 19	Mar 18	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
CAC 40	4187.06	4219.65	4152.37	4388.48	2862.54	4388.48	984.61

Day's high 4217.47 Day's low 4175.50

PARIS TRADING ACTIVITY — Volume : 429,583,980

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Renault	1,569,121	31.49	−0.71
FrTele	1,097,691	78.65	+0.85
Usinor	800,078	11.37	−0.13
Alctel	669,408	110	−1.5
EfAqu	542,410	125.2	−1.8
Axa	509,693	128.2	−1
TotalB	498,921	108.1	−1.9
AirFrn	437,171	15.89	−0.06
LVMH	410,546	234	−0.2
Lgardr	405,433	30.06	+0.06

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Rexel	74.9	+4.9	+7.0
GrdVsn	23.5	+1.35	+6.1
Immbnq	115	+6	+5.5
Synthl	205.9	+8.9	+4.5
Downs			
HvasAd	173.9	−10	−5.4
Seb SA	67.7	−3.6	−5.0
STMicro	89	−4.6	−4.9
Valeo	71.05	−3.65	−4.9

UK

	Mar 22	Mar 19	Mar 18	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
FTSE 100	6152.8	6169.2	6114.3	6335.7	4648.7	6335.7	986.9

Day's high 6200.1 Day's low 6128.9

LONDON TRADING ACTIVITY — Volume : 932,600,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Shell T&T	37,949,370	421¾	+2½
BP Amoco	21,517,590	1003	−3
Premier Oil	20,384,460	15¼	+1½
Asda	17,789,870	150¾	+4¼
Rolls-Royce	15,449,100	257½	−6
Belgo	13,215,820	10¾	+½
Vodafone	12,761,840	1051	−24
BG	12,688,340	349½	−8¼
Smth.Bchm	12,473,550	828½	+10½
Carlton Cmns	12,215,650	555½	−6½

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Wstmnstr Hlth	300	+115	+62.2
Anglesey Mng	4½	+1	+28.6
Eurocopy	25¾	+5¼	+26.3
Prop.Asset	4	+¾	+23.1
Downs			
TheoFennell	24½	−8	−24.6
Netwrk Tech	20	−3	−13.0
Corp. Svc	73½	−11	−13.0
Oxford Bio	20	−2¾	−12.1

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	1308.50	1312.50	+3.00	1319.60	1304.00	85,181	357,436
Sep	1323.50	1323.50	+1.40	1329.60	1295.10	100	4,553

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	16020.0	16350.0	+570.0	16390.0	15920.0	38,802	202,600
Sep	15890.0	16300.0	+410.0	16300.0	15890.0	112	3,689

Open interest figures for previous day

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	4193.0	4202.0	−30.0	4230.0	4177.0	71,924	138,707
Apr	4188.0	4204.5	−30.5	4226.5	4187.0	16,735	8,689

DAX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jun	5085.0	5059.0	−76.5	5103.5	5036.0	35,360	244,748
Sep	5130.0	5098.5	−81.5	5130.0	5111.0	4	955

OMX	Open	Sett Price	Change	High	Low	Est. vol	Open int.
Mar	717.00	715.00	−5.00	718.00	711.00	21,452	99,533
Apr	712.75	715.00	−3.25	717.00	711.00	12,823	24,055

EUREX	Open	Sett Price	Change	High	Low	Est. vol	Open int.
Jun	7146.0	7089.0	−46.0	7185.0	7071.0	15,388	104,578
Sep	7187.0	7106.0	−69.0	7187.0	7092.0	92	3,887

WORLD MARKETS AT A GLANCE

Country	Index	Mar 22	Mar 19	Mar 18	1998/99 High	1998/99 Low	Yield	P/E
[illegible]								
India	BSE Sens.	3713.18	3672.63	(c)	4280.96 21/4/98	2764.16 20/10/98	na	na
	S & P CNX 500	749.79	748.45	756.27	865.82 21/4/98	557.88 20/10/98		

Shares clawed back from lows to finish higher in late bout of institutional buying.

Country	Index	Mar 22	Mar 19	Mar 18	1998/99 High	1998/99 Low	Yield	P/E
Indonesia	Jakarta Comp.	392.28	394.21	(c)	554.10 3/2/98	256.83 21/9/98	8.52	22

Falls in overseas listed telecom shares, which gained significantly last week, pulled broad market lower.

Country	Index	Mar 22	Mar 19	Mar 18	1998/99 High	1998/99 Low	Yield	P/E
Portugal	BVL 30	4510.22	4421.98	4370.85	6176.89 22/4/98	3599.08 2/10/98	2.3	24.3
	PSI 20	10407.89	10187.07	10063.08	14280.00 22/4/98	8114.51 2/10/98		

Climbed against regional trend. Market recovering from recent heavy losses.

Country	Index	Mar 22	Mar 19	Mar 18	1998/99 High	1998/99 Low	Yield	P/E
Russia	RTS	81.98	85.70	84.52	411.61 5/1/98	38.53 5/10/98	na	na

Some shares closed off five per cent or more as profit-taking brought rally shuddering to halt.

[illegible]

THE NASDAQ-AMEX MARKET GROUP

4 pm close March 22

[illegible]

AMEX

4 pm close March 22

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Mergers overshadowed by Dow failures

WORLD OVERVIEW

Another round of mergers in Europe failed yesterday to offset investor disappointment at Wall Street's continued failure to establish itself above the 10,000 mark, *writes Philip Coggan.*

The weekend announcement of bids for two Italian banks maintained the trend for European countries to create their own "national champions" as the corporate sector strives to take advantage of the new single currency zone.

The banking sector has been in the vanguard of restructuring but so far, with the exception of the UK, most deals have been done *within national borders*. A second phase of international consolidation may still be needed if European banks are to compete with the US giants.

Europe was the initial focus of attention as Asia was quiet with Tokyo closed for the day. But the bank bids failed even to inspire the Italian market, which, along with Frankfurt, lost more than 1 per cent.

Wall Street opened with shares trading in a fairly *narrow range. While the* debate continues over whether the US market as a whole is overvalued, it is clear there is a big dichotomy between the growth stocks, often in the technology area, and the rest.

Nancy Tengler, president and chief investment officer of Global Alliance Value Investors, thinks the tide may be about to turn in favour of the value school of investment.

Her data shows that in 1997, 220 *stocks were over-valued* on a relative dividend yield basis and just 50 undervalued. But at the end of last month, 216 stocks were classed as undervalued, compared with 164 overvalued.

While investors' attention has been focused on Wall Street, the emerging markets have been quietly consolidating their recovery since the dark days of 1998.

The IFC composite index is up 30 per cent since the start of October and has outperformed the FT/S&P World index by around 4 per cent since the start of 1999. Even the Brazilian devaluation does not seem to have discouraged the bulls.

But has the rally gone too far? "Given the high level of current and forecast interest rates, Latin American equity markets do not appear particularly cheap relative to cash and fixed-income alternatives. Indeed, following the rally in Mexico, valuations are beginning to look stretched," says the emerging markets team at HSBC.

"We continue to prefer Asia to Latin America. Revisions to earnings and economic estimates in the latter are still negative, whilst economic expectations are now bottoming in Asia."

Takeovers fail to boost broad Wall St

AMERICAS

US shares were mostly lower at midsession as a series of takeover deals did little to raise sentiment in the broad market, *writes John Labate in New York.*

A $60bn deal in the cable industry sent many communications stocks higher. Comcast said it would acquire MediaOne Group, and *MediaOne shares* climbed 10 per cent or $6⅛ to $66⅞ while Comcast tumbled $6⅞ or more than 9 per cent to $63⅞. The tie-up links the US's third and fourth largest cable companies.

In a separate deal, Vivendi of France agreed to acquire US Filter, the leading water company. US Filter shares were unchanged at $30⅞ on the news.

By early afternoon, the blue-chip sector had given back its gains from early in the session, with lower prices of computer sector stocks putting a damper on the market. The Dow Jones Industrial Average lost 4.16 to 9,899.39 in early afternoon trading. The broader Standard & Poor's 500 index was off 1.13 at 1,298.16.

Among the falling stocks in the Dow, Sears Roebuck lost $1⅛ at $43⅞ and computer company Hewlett-Packard gave up $1⅛ at $69⅝.

Dell Computer tumbled 6.6 per cent or $2⅝ to $37⅞ *after* analysts at Donaldson, Lufkin & Jenrette cut their revenue and earnings estimates. The move put other computer makers under pressure, including Compaq, down $1⅞ at $30⅛.

"Other than the internet, the rest of the tech sector is not doing that well now," said Dan Mathisson, head stock trader at D.E. Shaw Securities in New York. The American Stock Exchange's internet index was more than 13 per cent higher at 289.65 as takeover speculation swirled through the sector.

Broadcast.com, the webcasting company, surged $28¾ to $113¾ on rumours that the company was in talks with Yahoo!. Yahoo! shares were $2 higher at $172.

Online advertising companies were higher as well, with DoubleClick up $17⅛ to $197⅛ after it announced a high-speed internet deal with Comcast.

Shares of Microsoft put on $2⅛ at $173⅛ on speculation that the largest software company was near a settlement agreement with regulators in its antitrust lawsuit.

TORONTO stocks held up at midsession thanks to a firm resource sector. The TSE-300 composite index was 13.01 higher at 6,611.83 in volume of 38.4m shares.

The market had opened higher, propped up by surging oil stocks on expectations that Opec oil producers would give their blessing to output curbs in an effort to boost slumping oil prices.

In the oil and gas group, Imperial Oil rose 50 cents to C$26.50 and Canadian Occidental Petroleum 20 cents to C$18.40.

Big screen movie theatre *group Imax soared C$3.85 to C$28* after Goldman Sachs upgraded the company's prospects.

Last month, the Toronto-based group reported a C$16.4m loss in its fourth quarter on a massive write-down on its Ridefilm division. But the US investment bank said that Imax had been over-penalised by the write-down.

Mexico City weakens

MEXICO CITY drifted lower on profit-taking after the recent extensive rally. By midsession, the IPC index was 58.65 or 1.2 per cent *lower at 4,735.68 with many* investors said to be on holiday already for Easter.

SAO PAULO saw a similar trend as profit-takers stepped in after the market's 22 per cent rise so far this month. By midsession, the Bovespa index was 197 or 1.8 per cent lower at 10,639.

Analysts said the index was likely to face pressure from the foreign exchange market as local companies *faced foreign debt maturity.*

BUENOS AIRES gave up 1.5 per cent at midsession as investors moved to slice off some of their gains from the market's 8 per cent climb so far this month. The Merval index was 6.44 or 1.6 per cent weaker at 403.60.

Banking frenzy hits Milan

EUROPE

Twin takeover bids in the Italian banking sector made for hectic activity in **MILAN** where trade was delayed on a number of stocks due to *excessive gains.*

The real-time Mibtel index closed 202 lower at 25,036, off a high of 25,565 and up from a low of 24,891.

Shares in takeover target banks performed exceptionally strongly and the merger frenzy also helped to push other banks higher.

Shares in Banca di Roma, target of a friendly $9.7bn share swap offer from San Paolo-IMI, closed 7.3 per cent *higher at €1.51 after soaring* almost 13 per cent at the open.

BCI, courted with a $16.4bn share-swap offer from UniCredito, closed 4.9 per cent higher at €7.55, off a high of €7.95. BCI savings shares were 28 per cent *higher at €7.46 by the close* after leaping 43 per cent.

Shares in the two predators fell, with San Paolo down 5.3 per cent at €14.95 and UniCredito 5.3 per cent lower at €5.01.

Among other banks, Intesa finished 1 per cent lower at *€5.51 after an early €5.60,* but BNL closed 5.2 per cent higher at €3.19.

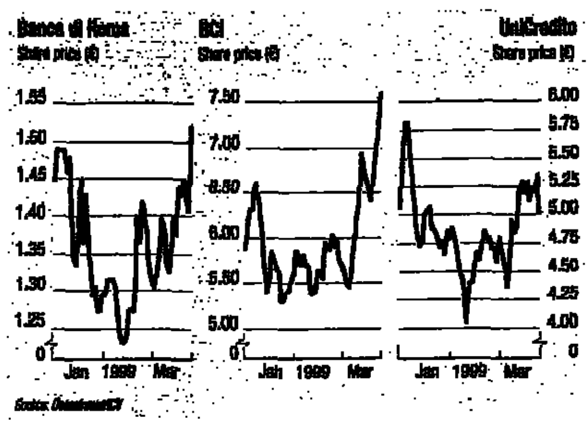
Mediobanca jumped 6.2 per cent to €13.38 after earlier suspension for excessive gains. Speculation suggested that the merchant bank could itself be a takeover *target, thanks in part to its significant holding in insurer* Generali, which rose 4.3 per cent to €38.26.

FRANKFURT was lower, led down by weakness in SAP and Lufthansa, while Commerzbank, the day's most heavily traded stock, bucked the weak trend. The Xetra Dax index closed with a loss of 74.07 at 5,034.68.

News that Commerzbank, which reports 1998 results tomorrow, was seeking to buy back up to 10 per cent of its shares sent the stock 10 cents higher to €28.20.

News that Commerzbank might seek to buy a stake in Crédit Lyonnais when the French bank is privatised later this year spurred *merger speculation* which also helped the stock.

In the opposite direction Dresdner Bank lost 90 cents to €37.60 in an extension of the profit-taking which called a halt to the shares' strength in the wake of BNP's bid for Société Générale and Paribas. Dresdner and BNP have small *cross-shareholdings.*



SAP tumbled €11.40 to €276.10 as investors displayed nerves over the business software maker's ability to sustain high growth levels. The group reports 1998 group results on Thursday.

The FTSE Eurotop 300 index fell 6.36 or 0.51 per cent to 1,251.72. See Euro Prices page.

PARIS ended marginally down as inflation worries weighed on the market. The CAC-40 edged 22.59 lower to 4,197.06 as fears of higher commodity price inflation *were fanned by the continuing recovery in oil prices.* Volume remained subdued throughout the session.

Oil stocks Elf Aquitaine and Total, which had put in a sharp rally last week on the back of Brent oil's recovery, ended lower. Elf closed *down €1.90 at €135.2 while* Total declined €1.90 to €108.10.

The negative sentiment also affected cyclical stocks, with Legrand slipping 3 per cent or €5.90 to €189.10 and Schneider ending 70 cents lower at €51.30.

Food company Eridania Beghin-Say, however, gained 4 per cent or €5 at €130 as the session's top performer. The company's shares were buoyed by speculation over the possible takeover of its Italian parent company Compart by a predator.

LVMH closed 20 cents lower at €234 as it attempted to thwart a tie-up between Gucci and Pinault-Printemps-Redoute.

ZURICH closed easier as stocks that had held steady for most of the session came under pressure when Wall Street opened little changed. A weakening dollar also cost the market some of its momentum. The SMI index finished 54.7 lower at 7,153.6.

Novartis, actively traded again, finished SFr30 lower at SFr2,415 after initial gains. Bank Sarasin downgraded the stock and lowered its earnings forecast by around 5 per cent. Rival Roche slid SFr100 to SFr18,020.

CS Group broke from its recent upward trend and shed *SFr4.50 to SFr286 after* the bank announced it had acquired Spain's Gestion Integral, a Madrid-based family business specialising in private banking services. UBS was little changed, losing 50 centimes to SFr483.

AMSTERDAM gave up a modest lead in afternoon trade to close mixed. The AEX index followed the lead of a weak Wall Street opening and easier neighbouring *markets to close 2.90 weaker* at 544.27.

Gucci, the Italian fashion house involved in a bitter takeover clash with France's LVMH, remained at the centre of attention. Gucci shares soared €6.70 or 10 per cent to €73.70 after the company *said it would give serious* consideration to the $81-per-share bid from the French luxury goods group. On Friday, France's Pinault-Printemps-Redoute bid $75 a share for Gucci.

TNT Post Group tumbled €1.70 or 5.6 per cent to €28.50 after the mail and logistics *group reported* an 18 per cent rise in 1998 profits but then disappointed the market with an outlook of lower profit growth this year.

Baan continued to benefit from US demand after last week's news that it would supply enterprise resource planning to Boeing. Shares in the software group put on 60 cents to €8.45 in a continuation of the recovery from last week's low for the year *of €6.15.*

Elsewhere, temporary employment agency Content jumped another €1.10 or 5.6 per cent to €20.90 on takeover speculation after last week's resignation of the company chairman.

MADRID closed lower with the general index down 8.64 at 885.05.

Repsol slipped 79 cents to €47.70 as investors viewed the impact of higher oil prices on the company as neutral.

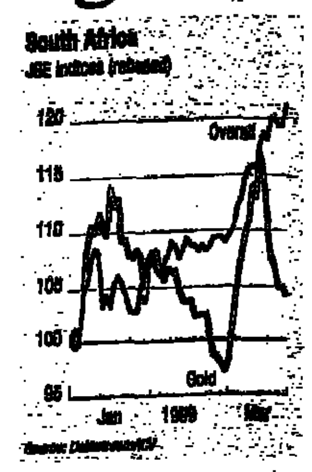
The banking sector, however, benefited from the merger talk in Italy. Santander rose 13 cents to €19.32 and BCH gained 1 cent to €11.65.

Written and edited by Michael Morgan, Florian Gimbel, Peter Hall and Paul Gregan

EMERGING MARKET FOCUS

IMF sales fear tarnishes golds

Gold shares tumbled from their highs on the Johannesburg stock exchange last week as the bullion price weakened on *fears* that the International Monetary Fund would turn a large-scale *seller of gold.*



The tremors in the gold market combined with a hectic futures close-out to send JSE volumes into orbit. Value traded on Thursday, the day of the futures close-out, hit a daily record of R8bn, helping to make for a record week.

While gold shares have been on a rollercoaster ride, the rest of the market has seen a fairly steady climb this year.

Fuelled by interest rate cuts and expectations of further monetary easing, the all share index has risen 22 per cent. Financial shares have been one of the main attractions in the declining interest rate environment.

Gold bugs are emphatic that they, too, will have their day as the South African gold mining industry has shaped up and stands to benefit handsomely from the cut in the corporate tax rate announced in the budget.

Moreover, the rand exchange rate is favourable and the chances of the currency strengthening are remote. But there is a cloud hanging over the gold market – *the fear of gold sales* by the IMF.

Jacques Chirac, the French president, first raised the idea to sell IMF gold to finance debt relief for poor countries. Then Bill Clinton, the US president, expressed support for the idea, sending *the gold price plummeting* $9 an ounce.

The effect on the JSE was predictably ugly – gold shares tumbled, losing almost 10 per cent in a week and ending a robust rally. The all gold index – replaced by a new, wider-ranging *mining index on Friday* – ended its life at 914.2 on Thursday, having reached a peak for the year at 1,018 the previous week. Yesterday was a *public holiday,* which meant there was no trade on the JSE.

Gold shares were due for a correction anyway, having raced up as the market digested the news of the cut in the corporate tax rate to 30 per cent from 35 per cent.

Even after the correction, blue-chip Angiogold, which lost R1.80 on Friday to R243.20, was still 7.5 per cent up this month. *From its year's low of 847.5 at the end* of February, the gold index had added about 20 per cent in about two weeks.

Greg Hunter, gold analyst at Deutsche Morgan Grenfell, said high tax-paying companies, such as Anglogold, could benefit most *from the cut in the tax rate.* The reduction in tax, and the stronger rand gold price, were likely to offset an expected three-ton reduction in Anglogold's gold production in the March quarter.

BOE Securities gold analyst Gerard Kemp said the *lower tax rate should add 3* to 5 per cent to gold shares on a net asset value basis, based on their value at the time of last month's budget.

An analyst said that although the gold price could test $280 an ounce again, it was expected to *average $295 this year.*

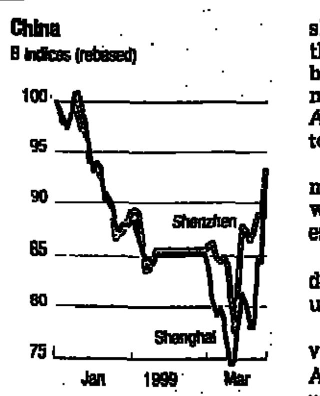
Greta Steyn

Red chips lift HK sentiment

ASIA PACIFIC

Asian markets were mostly higher but, with **TOKYO** *closed for a public holiday,* there was little force behind the trade.

HONG KONG advanced modestly as institutional interest kept the Hang Seng index above 11,000 points. However H shares were the star performers, making *strong gains in response to a* surge in China's B shares as investor interest broadened, underpinned by improved sentiment towards China.



The blue-chip Hang Seng closed 24.32 higher at 11,107.24, after crossing 11,000 for the first time in 11 *months on Friday.*

The H-share index of mainland companies listed in Hong Kong rallied 19.53 or 5.4 per cent to 378.54 as Shanghai's hard currency B index surged 9.3 per cent to 26.444 and Shenzhen's B shares gained 5.1 per cent to 49.90.

Analysts said that some investors apparently expect good news about China entering the World Trade Organisation when premier Zhu Rongji visits the US next month.

TAIPEI managed to close at a three-month high, above the psychologically important 7,000-point threshold on the weighted index, in response to news of improving export orders and industrial output.

Profit-taking had repeatedly emerged to erode the day's gains but by the close, the index was 49.85 or 0.7 per cent higher at 7,043.23. Turnover slowed to T$99.7bn, compared with Saturday's T$135.4bn and several T$140bn-plus sessions during last week's strong rally.

Analysts noted that the market was boosted by the economics ministry's mid-morning announcement that foreign orders for Taiwanese goods and industrial output showed solid growth over the first two months of 1999, bolstering hopes that an economic slowdown blamed on Asia's recession has bottomed out.

KUALA LUMPUR ended mostly lower as investors were unimpressed by the latest spate of company results.

The composite index was down 6.36 at 507.55, with volume remaining very thin.

Shares in financial services group Commerce Asset-Holding fell by as much as 20 cents before ending flat at M$9.84. The company's 1998 net profit of M$79.85m came in slightly below consensus market forecasts.

Property and construction company Taiping Consolidated fell 7.5 per cent to 17 cents on news that the group would *issue preference* shares to repay its debts.

SINGAPORE ended higher largely in response to the continuing upward momentum in property shares. The property index rose 2.8 per cent, with City Developments gaining 25 cents to *S$8.10 over the company's* plan to buy several apartment units in a Singapore property project.

But shares of diversified conglomerates SembCorp Industries and Keppel were depressed by news that the government had called off the sale of a 60 per cent stake in Tuas Power, for which both had tendered.

After fluctuating in a tight range in the morning, the Straits Times index finished 1.68 per cent higher at 1,497.68.

BOMBAY clawed its way back from the day's lows to *finish* higher in response to a late bout of institutional buying.

The BSE-30 index gained 40.55 to 3,713.18 in volume of 61.8m shares.

Satyam Computer Services was the day's star performer, jumping Rs113.25 to Rs1,621.25. Among other big gainers, Associated Cement Companies put on Rs98.75 to Rs1,334.75 and Bajaj Auto was *Rs44.25 higher at* Rs598.25.

KARACHI was higher in spite of a court ruling on Hubco that created uncertainty among investors. The KSE-100 index closed 18.75 or 1.8 per cent higher at 1,069.62.

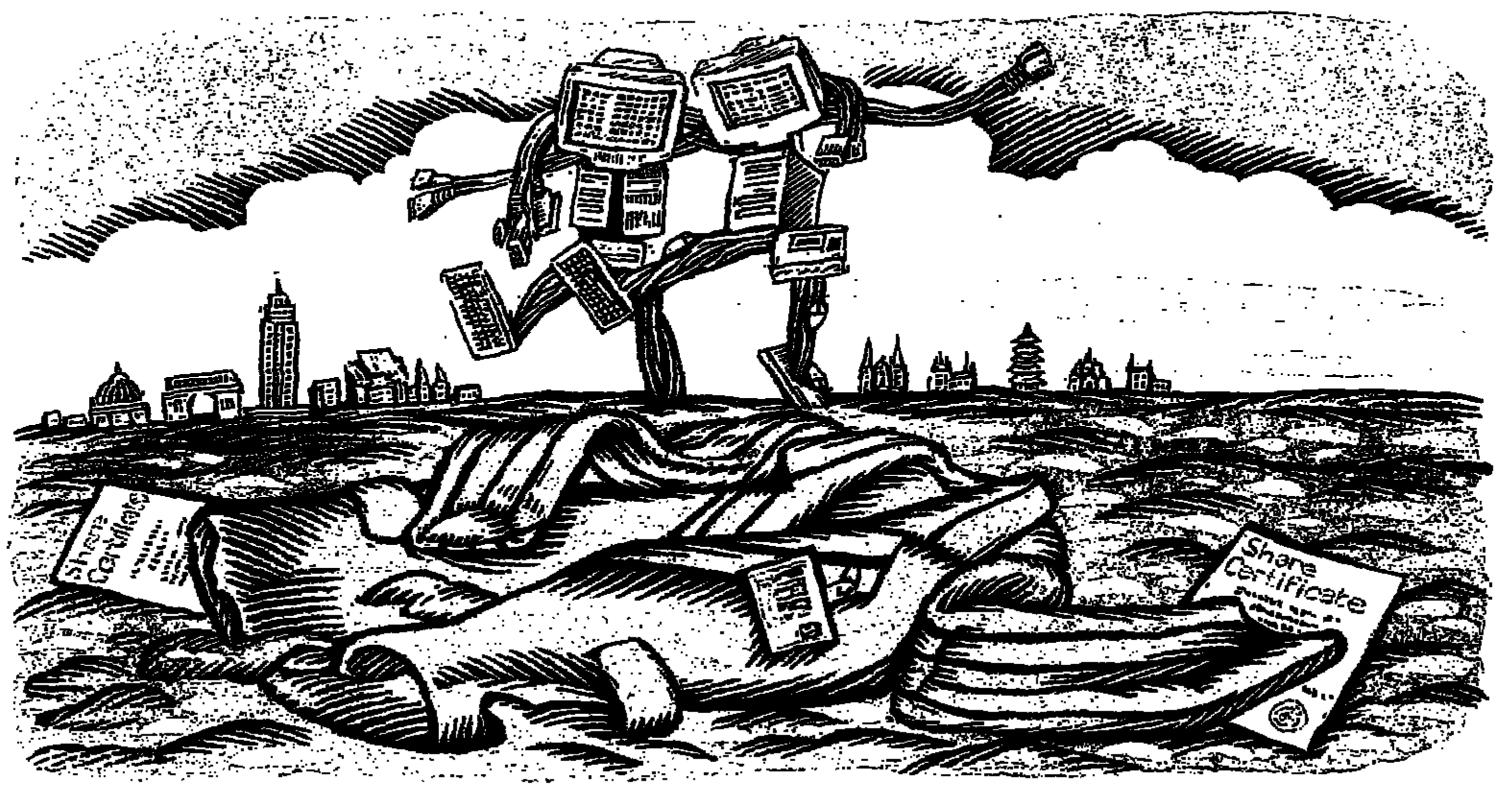
Hubco rose 65 paise to Rs17.75 as a court ordered the company and state utility Wapda to settle their row over tariffs in an international arbitration court.

STOCK AND DERIVATIVES EXCHANGES

TUESDAY MARCH 23 1999

New technology is driving mating dances

Exchanges are having to face up to sacrificing their autonomy or being sidelined in a shrinking domestic environment, writes Edward Luce



Exchanges are like airlines: every self-respecting nation must have one regardless of whether or not they need it. Much like the airline industry, however, the world's stock and derivatives exchanges are scrambling to join an ever-shrinking pool of cross-border alliances to remain viable. Driven by new technology and the growing power of the world's largest institutional investors, exchanges are being confronted with the choice of sacrificing their autonomy or being sidelined in a shrinking domestic environment.

The most obvious sign of this is in the hugely ambitious drive to create a pan-European stock market which at the latest count will involve eight exchanges. Although the process led by the London Stock Exchange and the Deutsche Börse was only formally launched in January, the logic is much the same as that which led to the launch of Europe's single currency. Eventually, once a common trading platform is in place by 2001 or 2002, Europe's national stock exchanges will come to resemble their domestic central banks: local (and increasingly irrelevant) branches of a continent-wide unit.

But the most widespread and radical changes are taking place among the world's derivatives exchanges. With the notable exception of Chicago, where the Chicago Board of Trade and the Chicago Mercantile Exchange remain uneasily attached to the dying culture of "open outcry" pit trading, technology has been triumphant in the past 12 months.

From the Singapore International Monetary Exchange and the Sydney Futures Exchange in Asia to the London International Financial Futures and Options Exchange and Matif in Europe, the whirr of the screen has been drowning out the cries of the trading floor. With the launch of Globex, an alliance between Matif, the French exchange, the Chicago Mercantile Exchange (CME) and Simex in Singapore, the world will soon have a 24-hour electronic trading platform accessible on a rotating basis from the globe's three main time-zones. Other competing global platforms are sure to be set up in the near future.

What is driving this furious pace? And will it ever stop? The most important impetus comes from dramatic improvements in communications technology which allows huge volumes of data to circumnavigate the globe in real-time at near-zero cost. This advantage enabled Eurex, the Frankfurt-based electronic futures exchange, to poach the vital future on the 10-year German government bond from floor-based Liffe last year even though most of the demand was coming from London and US screens.

The logic of technology also enabled the National Association of Securities Dealers in the US to merge with the American Stock Exchange which it hopes will undercut the floor-based New York Stock Exchange.

The need to raise capital to develop new electronic platforms is also behind the merger of the cash and derivatives exchanges in Hong Kong (announced earlier this month), in Singapore (announced last November) and probably in Sydney later this year. As with Liffe, which was compelled to embrace screen-based trading last May, the Asian exchanges also plan to demutualise their ownership structures in recognition of the fact that technology has rendered member-owned exchanges anachronistic.

The ability to trade on a multitude of exchanges from a laptop anywhere in the world has made a nonsense of linking ownership to trading rights. As a result, exchanges are increasingly decoupling the link between trading permits and share ownership and, like the Sydney stock exchange, even listing themselves on their own exchange. This, in turn, enables them to raise cash to develop the next generation of trading technology. It will also enable them better to meet the competitive challenge posed by the rise of alternative internet-based trading systems and electronic quasi-exchanges such as Instinet, the system operated by Reuters.

Second, the largest market operators, the big mutual and insurance funds and the global investment banks, have been getting larger and more powerful in relation to the local coalitions of brokers and traders who have often sought to defend the status quo.

For some exchanges, such as the Deutsche Börse, which is majority-owned by the leading German banks, this has posed no problems. But for others, such as the Chicago Board of Trade (CBOT), which is dominated by self-employed floor traders, the divergence of interests between the largest and smallest players has become more marked over the past 12 months. Members of the CBOT and CME scuppered a plan late last year to merge the exchanges' respective clearing houses seeing no clear benefit in the tie-up.

For the larger members, most of whom are also clearing members of Chicago's European competitors, the merger would have delivered significant reductions in the cost of doing business. If the CBOT continues to resist change, it is only a matter of time before competitors seek to undercut the exchange by launching a fully electronic version of the CBOT's leading contracts.

Third, the logic of economic globalisation has resulted in a split between a class of increasingly liquid and international blue-chip stocks and derivatives on the one hand, and a more domestic category of small-cap stocks and derivatives instruments on the other. The outperformance of the S&P 500 against the Russell 2000 index of smaller cap stocks, or the FTSE 250 against the FTSE SmallCap Index, over the past three years is testimony to the growing sway of cross-border investors who seem to have neither the time nor the patience to invest their cash in smaller equities.

The growing success of Euro-NM, the recently launched stock market for smaller European listings, is one answer to this dilemma. Another, as recognised by Frankfurt and London, is to launch a separate trading platform for Europe's largest 300 blue-chip companies. The same logic, albeit with greater ruthlessness, applies to the market for European interest-rate derivatives. The volume of trading in the Italian and French bond futures has shrivelled in proportion to trading on the 10-year German government bond since they were redenominated into one currency on January 4. Derivatives are hedging instruments based on underlying cash securities. The more similar the underlying cash instruments become (in this case all being redenominated into euros) the less point there is in spreading your business among them.

But it would be misleading to suggest that the world is marching inexorably towards the creation of one large cash and derivatives exchange. For a start, the market is calling the shots, and the market benefits, from a degree of competition between the exchanges. This has kept fees down, led to the deregulation of brokers' commissions and forced exchanges to adopt the changes the market wants.

It would also be wrong to imply that the process of consolidation is a seamless one. The decision to pool liquidity is perhaps the easiest step to take. The thornier decisions – such as which clearing and settlement technology to adopt and which trading platform to use – come later. Increasingly, politics dicatates that the LSE and the Deutsche Börse will probably have to jettison their own trading systems Sets and Xetra in favour of a new platform in spite of the high development costs. But there is no obvious formula to determine how the eight European exchanges will split the revenues.

These, and other questions – for instance, how can exchanges obtain maximum commercial value from their proprietary software – have yet to be answered. But, if the airline business is any guide, exchanges must recognise that power is shifting decisively towards the customer. And, in the world of stock and derivatives exchanges, the customer is becoming particularly assertive. The next 12 months promise as many upheavals as the last.

PROFILE
GAVIN CASEY

Gavin Casey: 'I think we are moving forward again' John Springs

A pan-European enthusiast

It seems bizarre, but it is true. The post of chief executive of the London stock exchange used to be considered the most thankless job in the City. From the Big Bang in the mid-1980s – which led to the disappearance of the trading floor – to the embarrassment and waste surrounding the failure of the Taurus settlement system in the early 1990s, to the more recent unholy row over the Sets order book, the exchange appeared to be floundering, searching for a role in an increasingly international City.

Now, on the 22nd floor of the exchange tower, a bit of a white elephant in the era of electronic trading but with wonderful views across London's rooftops, Gavin Casey believes he has turned the job around. As he studies recent coverage of the exchange he senses a gradual warming of attitudes. "I think we are moving forward again," he says, although the destination – an alliance with the thrusting Deutsche Börse to create a "super bourse" to trade the shares of Europe's top 300 companies – is not yet firmly fixed on the map.

Mr Casey is reluctant to be drawn on the mechanics of creating this pan-European exchange. But he insists that both the British and the Germans are working well together. Part of the problem in recent years has been a desire to please everybody, he says – mentioning Taurus specifically – and that remains an issue, since the exchange is owned by its 260 members, who range from international giants such as Merrill Lynch to smaller, UK-focused houses, and whose interests are not always compatible.

Mr Casey, 52, is a Merrill Lynch man. Appointed group finance director of Smith New Court in 1989 after a career with Coopers & Lybrand, County Bank and its successor, NatWest Markets, he became chief operating officer in 1995 shortly before Smith New Court was taken over by the US investment banking giant.

It was from his position at Merrill that he was tapped to head the exchange as its leading members sought to restore stability after the Taurus fiasco, which cost hundreds of millions of pounds and was the one decisive factor in turning the job of exchange chief executive into a poisoned chalice.

It was to prove the adage that you can please some of the people all the time and all of the people some of the time, but you can never please all of the people all of the time.

Now that the initial mission appears to have been achieved, Mr Casey is leading the exchange into uncharted waters. The goal of creating the pan-European market – which appears to have the backing of all the main operators in the European equity markets, even if they don't all agree on how it should be done – will require much compromise from regulators, users and customers.

"In all honesty, they can't all have their own way," he says. "All of them are looking at what makes sense for Europe. Someone has to make a concession."

One of the most difficult issues that will have to be resolved between London and Frankfurt – and the six other European exchanges closely watching "super bourse" developments – is how its ownership will be structured. The big German banks are the dominant owners of the Deutsche Börse, a factor that sits rather uneasily with London's one-firm-one-vote structure. Mr Casey acknowledges the importance of the issue and says: "Ownership will be determined on the basis of the value each exchange brings to the new market."

The exchange is confident it is bringing a great deal of value to the new market, including its international outlook, an advantage its critics often overlook. London remains pre-eminent as a base for companies from eexchangewhere in Europe and from the Middle East and Asia to tap new capital and investors and broaden their shareholder base. Mr Casey has been on recent exchange delegations to China, Egypt, South Africa and India, and there is no prospect of its international role being overlooked as its attentions are focused on the creation of the pan-European market.

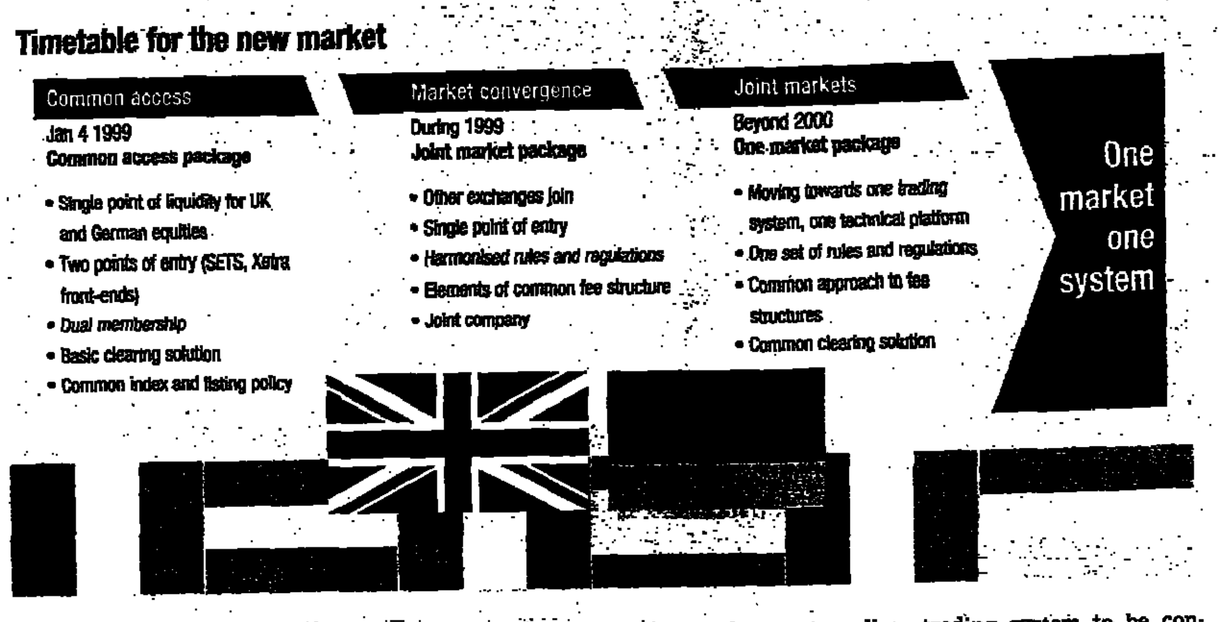
"International marketing is a very important part of what we do," Mr Casey says, although he sets no target for overseas listings for 1999. "Quality is more important than quantity," he adds.

Vincent Boland

EUROPEAN ALLIANCES by Vincent Boland

Super bourse takes shape slowly

The project is undeniably complex as well as politically sensitive and it is more important to get the market right than to get it early

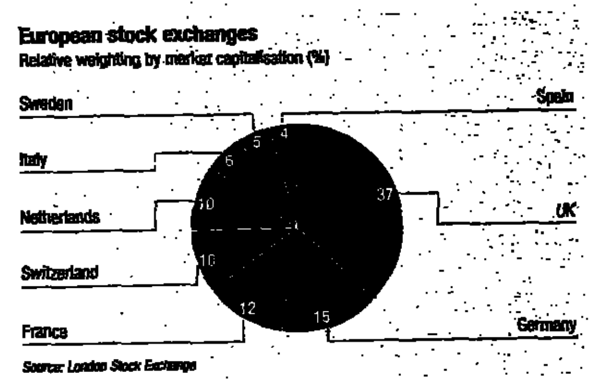


A single market for a single currency sounds like a great idea. The creation of the euro is expected to lead eventually to a massive consolidation of European industry and the creation of bigger companies with a pan-European or global reach. It seems natural for these groups to be listed on an exchange where their shares can be traded freely by a pool of institutional investors whose own business will also become increasingly pan-European.

For those reasons, the proposal by the London Stock Exchange and the Deutsche Börse to create a pan-European market to trade the shares of Europe's top 300 companies has been generally welcomed. Many observers agree that the current structure of Europe's stock markets is not viable in the long term in an increasingly global investment environment. Liquidity is the key to successful markets, and the promise of greater liquidity thrown up by the proposed new market is one of its main attractions for investors.

"The alliance is impeccable in its logic," says Fields Wicker-Miurin, vice-president and head of global markets at AT Kearney, the management consultants. "Equity markets are most liquid when liquidity and information are concentrated at one point."

But if the creation of a pan-European market is forward-thinking, its genesis is also profoundly defensive. This aspect of the London/Frankfurt link has been much discussed – which is inescapable given the context in which Europe's "super bourse" is emerging. The crumbling of national borders in business and finance makes the idea of national stock exchanges for international companies redundant.



"The current structure is not viable in the long term. This [a pan-European market] is the way forward," says Hans Christian Iversen, a partner at Deloitte & Touche Consulting. "National" stock exchanges, Mr Iversen believes, need to concentrate on middle-market, capital-hungry companies, which are in danger of being left out in the cold now that so much energy is being devoted to the interests of Europe's giants.

But there is a long way to go before a pan-European stock market becomes a fully-functioning reality. One of its key competitive elements will be how its rules and regulations work. London and Frankfurt began the long process of harmonising their trading environments earlier this month. The published proposals seek to streamline trading hours, limit order size and limit validity. However, that was the tip of the iceberg. Included in a genuine harmonisation of their rules will be the governance of disclosure of price-sensitive information, company reporting, regulation, clearing and settlement, and other issues of concern to investors.

There is also the question of who should control the new venture. Many European stock markets are essentially co-operatives. London is owned by its 260-odd members while Frankfurt is owned by German banks but essentially controlled by the big three – Deutsche Bank, Dresdner Bank and Commerzbank. That has alienated the smaller German banks and may yet be a problem for London's members, who are unlikely to want the new trading system to be controlled in the same way.

The two types of ownership structure most favoured are for the pan-European market to be either a listed company itself or for it to be majority-controlled by its main users – international institutional investors and the main equity trading houses. The former, of course, means it would be vulnerable to being taken over. An ownership structure incorporating all the market's interested parties therefore seems more realistic, it also more unwieldy. And deciding who those interested parties are will not be easy.

Indeed, some observers argue that the more London and Frankfurt seek to satisfy the vested interests that dominate them – companies, members, regulators, index providers, etc – the greater the likelihood that their vision of a pan-European market will be overtaken by competitors. "The more compromises they make to satisfy current interests, the more vulnerable they are to outside interests coming in and providing what the market wants. They need to be aware of that," Ms Wicker-Miurin says.

In deciding on its future structure, London and Frankfurt also have to take account of the interests of the six other European stock exchanges that are waiting impatiently to be invited formally to participate in the development of the new market. The Amsterdam, Brussels, Madrid, Milan, Paris and Zurich bourses want to join, and London and Frankfurt say they intend asking them to do so. But in the meantime, Paris, Zurich and Milan have formed their own alliance – limited for the moment to providing open access to the three markets to each other's members.

They insist it is not a spoiling tactic to counter the London/Frankfurt proposal but rather a complement to it. It is also a convenient fall-back position that would leave them in a strong position to provide a counter-weight to the UK and German exchanges – which adopted their own cross-membership agreement earlier this year in the first phase of their alliance – in the event that the "super bourse" failed to materialise.

The timetable for the new stock market remains vague, although a good deal of progress should be made by the third quarter of 1999. The project is undeniably complex as well as politically sensitive, and mistakes could be costly. As Mr Iversen notes: "It is more important to get this market right than to get it early."

US OPTIONS EXCHANGES by Nikki Tait in Chicago

Marriage proposals dominate the sector

The need to capitalise on new technologies has led all four US options exchanges to look at ways of pooling know-how

Consolidation, alliances, technology-driven competition and pressure on costs have been dominant themes in the futures industry for the past 12 months. But in many respects, those same trends have also been evident in another sector of the derivatives industry – namely, the US options business.

As with the futures industry, many of the changes stem from the ability of new technologies to deliver cost-savings, sought by trading firms and end-customers alike. The need to capitalise on such developments has led all four US options exchanges to look at ways of spreading costs and pooling know-how – although in a number of cases, marriages have been easier to propose than to consummate.

The latest mating dance began with the decision by the American Stock Exchange, which houses the second biggest options floor, to merge with the National Association of Securities Dealers. This deal brought together the second and third largest stock trading systems in the US. But many observers also felt that it would ultimately bolster Amex's options arm, thanks to the Nasdaq market's more sophisticated technology and the combined organisation's larger overall presence.

That, in turn, presented the Chicago Board Options Exchange, birthplace of the option industry and still the largest single exchange with an overall US market share of about 51 per cent, with a fresh challenge. Last June, it set off a bidding battle for the Philadelphia Stock Exchange, the smallest of the four main operators in the options business, by sending a formal acquisition offer.

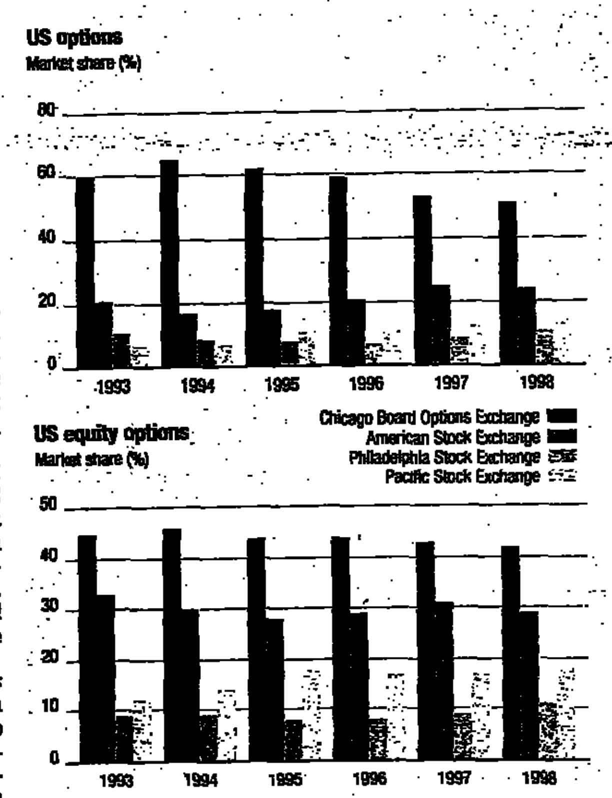
CBOE's move followed months of behind-the-scenes activity involving itself, the Amex and the Philadelphia Exchange. To no one's great surprise, the smaller exchange ultimately decided that Amex, located much nearer to its existing operations than CBOE, looked the preferable partner. It duly joined the Amex-Nasdaq alliance.

CBOE then launched a second, more promising merger attempt, when it secured a pact with the Pacific Exchange, the industry's third largest operator in mid-summer. This deal would have left trading floors in Chicago and in San Francisco, but the exchanges would have had a common board. By combining forces on the technology front, the two entities estimated that around $80m could be saved over seven years.

But here again, the deal failed to be finalised. CBOE unilaterally pulled out of the transaction early in 1999, ostensibly blaming Justice Department queries, which it claimed could mean serious delays to the deal.

In reality, many observers believed that the rethink on CBOE's part was also due to a new challenge – the potential arrival of the International Securities Exchange, a proposed electronic exchange which plans to launch in early 2000 and aims to trade options on 600 leading stocks.

In some respects, the options markets appear less vulnerable than the futures exchanges to this type of competition, having already incorporated more trading technology. At CBOE, the most technologically-advanced options market in the US, hand-held units are commonplace on the trading floor, and more than 80 per cent of orders flow in electronically.



Nevertheless, all four existing exchanges still use the "open-outcry" execution system. So, with no trading floor to maintain, the ISE claims that it will have little difficulty in undercutting the existing operators.

One reason why the ISE has been taken seriously is that its backers are credible, boasting established track records in the electronic trading area. They include E*Trade, the first online brokerage, whose founder Bill Porter will be the ISE's initial chairman; Ameritrade, another big operator in the discount/online sector; and a handful of trading firms, including Herzog Heine Geduld, Knight/Trimark, and Scottsdale Securities.

On the technology side, too, there is established expertise. Suppliers include Sweden's OM Gruppen, which is providing the electronic trading software, and Compaq.

The ISE's plan is for an electronic exchange which would trade options on the 600 leading stocks. About 30 contracts would be available when the ISE launches next January, and the number would then double each quarter.

Members of the exchange would be split between primary marketmakers, who would be obliged to support the market for at least 10 contracts and manage orders in their assigned options; ordinary market makers who would trade for their own account, and maintain markets in a smaller number of assigned options; and an unlimited number of broker/dealers, known here as "electronic access members".

Trades would be cleared through the Options Clearing Corporation, which guarantees business at all US options exchanges.

Already, the ISE threat has brought changes. The Pacific Exchange, Amex and CBOE have all cut fees, and there is also talk of doing away with the tradition of "grandfathered" options – contracts on some leading stocks on which the big options exchanges tacitly agree not to compete.

CBOE is also considering modifications to its existing trading structure – in particular, extending the "designated primary marketmaker" system which has applied to most newly-introduced options since the late 1980s, possibly to all equity options. In addition, it has talked of developing its own fully-automated trading system, as a defensive measure.

DEPOSITARY RECEIPTS by John Labate in New York and Khozem Merchant in London

Mixed results for ADRs as issuance slows down

A factor holding back the market's performance has been the astonishing rise of the Dow Jones Industrial Average towards 10,000

The slowdown that has gripped many of the world's regions outside the US has led many companies to shelve their plans to list on US stock exchanges. And with US investors treading cautiously through the market, the market for American depositary receipts (ADRs), has continued to show mixed results in the early months of 1999.

ADRs are the most common method by which overseas companies secure US shareholders. Companies that offer ADRs maintain a stock listing in their domestic market, while the ADRs are denominated in US dollars and listed on a US exchange – invariably the New York Stock Exchange.

Both sets of shares tend to rise and fall in tandem. Events in a company's domestic market have a big impact on the price performance of the ADRs. Recent volatility in emerging markets has been the main reason for the slump in the ADR market since early 1998, and there has been a noticeable slowdown in issuance in that period.

Another factor holding back the market's performance has been the astonishing rise of the Dow Jones Industrial Average towards 10,000. "When the US stock market is doing well, the US dollar-based investor looks around the world and sees slower growth, currency fluctuations and volatility," says James Donovan, global managing director for depositary recipts at Citibank in New York. "Many [US investors] are questioning why they should be following the standard diversification strategy."

Mr Donovan believes that just as US investors have favoured large, brand-name companies in the recent phase of the bull market, they have also prefered to buy large ADR share listings over smaller, riskier ones.

The ADR was the first and remains the foremost security of its kind. There are some 2,000 ADR programmes worth about $400bn. However, the leading 50 ADR programmes attract 70 to 80 per cent of liquidity.

According to JP Morgan, nine of the top 10 ADR programmes by volume at mid-March had appreciated in value since the start of the year. Telefonos de Mexico led the pack, up 29.6 per cent, followed by ASM Lithography Holding, which recorded a 28.2 per cent rise.

The ADR issuance market does not typically pick up until the second half of the year, so analysts are still hopeful that subsiding volatility and better sentiment in global markets will coax more companies into ADR listings.

In 1998, the volume of new ADRs coming to market fell by more than 40 per cent, according to Bank of New York, the largest lead-manager of foreign secondary offerings in the US. The listings raised $10bn, compared to more than $18bn in 1997. But according to Citibank estimates, the 20 most actively traded ADRs in 1998 managed to outperform the Standard & Poor's 500 index, gaining more than 20 per cent in value.

While ADRs and global depositary receipts (GDRs) – issued by companies seeking an international listing in London – are the main ways through which companies from emerging markets gain access to foreign shareholders, the arrival of the euro has created a potential new market for euro depositary receipts.

Whether an EDR market takes off remains problematic, however. One potentially significant source of EDRs could be US companies seeking European market listings, particularly on the new pan-European stock market being proposed by the London and Frankfurt stock exchanges.

The development of an EDR market would require European bourses to act as agents for US clearing institutions, and so far there appears to be a reluctance among Europe's exchanges to do so. "In time, EDRs may emerge as a better way to sell US securities to Europeans. For now, the problem is that you cannot settle US securities in Europe," says John Millar, managing director of equity capital markets at Merrill Lynch in London.

Currently, however, there are only two EDR programmes, by Zagrebacka Banka, a Croatian bank, and an Egyptian brewery. Bankers are, for the moment, relaxed about the lack of EDR issuance. After the Russian and Asian crises, emerging markets are a low priority for fund managers, who are, in any case, concentrating on euro-zone investment amid a wave of cross-border mergers and consolidation.

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ONLINE EXCHANGES by James Mackintosh

Global computer network may be a recipe for disaster

London and other large, liquid stock markets could go out of business if they do not get to grips with online share dealing

The Stock Exchange's relationship with the internet started with a bang and has not yet recovered. But if London's stock market – the biggest in Europe – cannot get to grips with online share dealing and the increased power the worldwide computer network gives private investors it could face disaster.

At least, so the doomsday scenario has it. London, and other large, liquid stock markets, will first lose their role as a way of raising capital for companies. This is because the internet will allow businesses to link directly to investors wanting new shares. The owners of these shares will then be able to trade cheaply with each other, bypassing intermediaries such as stockbrokers and the market.

In the long term, according to Mike Mathias, principal of the consulting group at IBM, shares could be bought and sold securely over the net using systems designed for other second-hand goods, with global security administered by the United Nations. However, Mr Mathias says stock exchanges are likely to survive because they "add value by providing certain minimum standards on companies that seek to raise funds".

Attempts to avoid formal markets by using the internet are still in their infancy. But tens of millions of dollars are already being raised for new businesses from investors keen to gain direct access to initial public offerings (IPOs), traditionally an area dominated by investment banks and institutions. And off-exchange trading is – slowly – beginning to spread from institutions to private investors who can use the internet and electronic networks to trade with each other.

This is not likely to happen soon. However, London is well behind the US markets, particularly Nasdaq, the high-technology specialist market, in its approach to the internet. Where Nasdaq, the NYSE and European bourses give out share prices and even raise cash from advertising, London's web site is little more than a series of leaflets explaining how the market works.

The exchange was forced to back down in its first encounter with the new technology. In 1995, it pulled the plug on Electronic Share Information, a start-up venture planning to sell share prices on its web site, and then threatened legal and disciplinary action against a stockbroker linked with the company. ESI survived and thrived by providing investors with what they want most: cheap, up-to-date information.

However, the stock market – along with other world markets – is not just being challenged over data. Its two core functions could be under threat over the next six years, according to a study by Forrester Research, a new media analyst, last year.

● Raising capital is an expensive task for companies that stick to the stock market, but in the past they had little choice but to hire investment bankers. Forrester predicts that by 2005 as much as a fifth of money raised by companies joining stock markets will come direct from individuals buying shares via the internet. There has already been a handful of direct public offerings of shares in small companies in the US, and the first of these – Spring Street Brewing raised $1.6m from 3,500 internet investors in 1995 – led to the creation of Wit Capital to help other companies go public online. Several large discount brokers, including E*Trade and Charles Schwab, have begun to underwrite share offers too.

● Share dealing could also be snatched away from stock markets by the internet. The net can be seen as an advanced version of the 18th century coffee shop that grew into the stock market: investors can sign on, deal shares between themselves without commissions or a spread between buy and sell prices, and if they surf in a cybercafe even buy an espresso.

Several order-matching systems eliminating the spread have already been established on the web, although so far little dealing has been carried out due to settlement problems. Wit Capital's Digital Stock Market is in the process of starting up and the People's Stock Network has received regulatory permission to operate as a "bulletin board" allowing investors to trade with each other.

However, even the pioneers of online investment do not believe stock markets and their stockbroker members will be destroyed by online bulletin boards. Julian Costley, head of electronic broker E*Trade's UK operation, says: "The chances are that the people who turned up in that coffee shop were affluent or agents for people who were affluent. It may sound tedious but we are not going to persuade ordinary people to trade on the internet if there is no regulation or security standing behind it."

More serious is the spread of off-exchange trading, typically using a system such as Instinet or Posit, from institutions to private investors. These systems remain expensive for individuals, but "day traders" are already using electronic networks to bypass the markets and as much as 20 per cent of the volume of Nasdaq-listed companies is traded on such networks. As costs fall, markets will be forced to respond to such alternative systems.

The lowering of barriers to entry – through cheaper technology and easier access to buyers and sellers online – could help stimulate the creation of rival exchanges, say some brokers.

But, as Tom Sheridan, managing director of Barclays Stockbrokers in London, points out, these would still be stock exchanges. And because private investors dealing online tend to deal more frequently, the rise of internet dealing should increase volumes – so there will be more liquidity to go round, a good thing for all the markets. "Investors are highly unlikely to start dealing with each other and taking their chances as to whether the stock or the money ever appears," Mr Sheridan says.

The primary victims of the internet revolution are likely to be the full-service stockbrokers, who charge for information that is increasingly available free from the web, and investment banks, who will lose a chunk of business to direct online sales of shares.

SETTLEMENT SYSTEMS by Arkady Ostrovsky

Back-office emerges from shadows

Clearing houses cash in on the need for banks to improve returns and cut risk of defaults

Clearing and settlement, which were once considered the back-office functions of capital markets, are emerging from the shadows. Their promotion into the centre stage of financial markets has been driven by the need of financial institutions to manage their exposure to risk and to cut the cost of capital.

The financial crisis in Russia and other emerging markets has significantly reduced the appetite of banks for risk, and as banks come under mounting pressure from their shareholders to improve the return on capital, clearing houses are spreading their wings.

By using clearing houses as a central counterparty for trading in derivatives, repos and other financial instruments, banks can reduce the capital they need to set aside against the risk of default.

The London Clearing House, Europe's largest, acts as a central counterparty for trading on the London International Financial Futures Exchange (Liffe). This means counterparties have to settle directly with LCH rather than with the party from which they bought or sold derivatives and traders do not have to worry whether the other party can deliver.

LCH also acts as the central counterparty to the London Metal Exchange, Tradepoint, the electronic trading system for UK shares, and the International Petroleum Exchange.

The launch of the euro and merger activity between leading European derivatives and stock exchanges have also transformed the industry by increasing the need for efficient and quick cross-border settlements and bringing cross-border clearing into the spotlight.

Euroclear, the largest clearing system for cross-border deals in stocks, bonds and derivatives, and its Luxembourg-based rival, Cedel Bank, are planning to launch a real-time settlement system for internationally traded securities between counterparties. They will also provide real-time access to most domestic markets in which they operate. At present the transactions are settled overnight.

The launch of the euro has accelerated the pace of cross-border trading. Clearing houses are cashing in on the resulting increased demand for pan-European clearing and settlement services. "With the launch of the euro, financial institutions are looking for single access points for cross-border euro-zone transactions as well as a one-stop shop which can provide integrated settlement services," says Denis Peters, a vice president at Euroclear.

As cash and derivatives markets draw closer, financial institutions need to have access to different types of securities. "The distinction between cash and derivatives products is disappearing and so are the differences between OTC trading and traditional forms of trading, and a clearing house has to be able to recognise this," says Pascal Samaran, chief executive officer of Matif.

But the introduction of the single currency and the fact that European governments are issuing less debt also means there is an increased demand for corporate bonds and shares from investors. Euroclear is currently working on a project to provide more wholesale custody services for corporate debt and equities.

National clearing houses are not complacent, however. The LCH, which clears trades on London's derivatives, metals and petroleum exchanges is embarking on an ambitious international expansion. It already has arrangements to settle German, Italian and UK government bonds.

It is also extending its operations into non-exchange traded derivatives such as global interest rate swaps and repos. A repo – or a repurchase – agreement is where one party, usually a bank, lends a security, usually a government bond, to another bank in exchange for cash and agrees to buy it back at a certain date. LCH hopes to launch a clearing service for Europe's fledgling repo market in the second half of the year.

Clearnet, which is owned by Matif and which settles repo and cash transactions in French bonds, is planning to compete head-on with the London Clearing House for supremacy in Europe's government bond markets. Clearnet is preparing to extend its services into other markets, Germany in particular. "In order to survive you have to provide service on the Europe-base level," says Mr Samaran.

But settlement on its own is no longer enough. Clearing systems also have to deliver basic custody of securities and allow customers to have constant access to their securities in order to use these assets as collateral in other transaction.

One of the ways to increase revenue is to lend securities which are already in the Euroclear system to other parties who are prepared to pay high rates of interest to settle their own deals. The other way to maximise revenue from securities is to use them as collaterals in other deals such as repos and credit derivatives trades, explains Mr Peters.

Russia's default on its debt and the related resulting panic in international capital markets, made traders nervous about their exposure in derivatives transactions. Minimising or eliminating risk became one of the main tasks for clearing systems. "The main trend in the market is that it has become very risk averse which means financial institutions are increasingly looking for secured transactions," says Mr Peters.

Traders require collateral for OTC trades, which creates new business opportunities for clearing houses. Euroclear, which has securities worth $2,700bn which can be used for collateral transactions, is recognised as an official clearing system by the European Central Bank. Last month the total daily average value of triparty collateral-backed transactions was $35.5bn.

Euroclear arranges settlement of futures on delivery against payment. This means securities will not be exchanged unless both parties can match their obligations.

Securities are exchanged simultaneously through electronic systems and there is no shipment of bond certificates.

PROFILE
WERNER SEIFERT

Werner Seifert: an amateur jazz pianist and organ player — John Springs

Börse's innovative chief strikes the right note

Rarely, if ever, can an amateur jazz pianist and organ player have had so much influence on a stock exchange. Werner Seifert, the head of Deutsche Börse, is so keen a music enthusiast that, when the German stock exchange threw a party in 1997 to celebrate the launch of its Xetra electronic trading system, he played a song he had written himself rather than make a speech.

Mr Seifert's impact on the Börse has been even more startling. Since becoming its chief executive in August 1993, the Swiss-born Mr Seifert, 49, has done more than anyone to transform the Börse from a medium-sized exchange barely noticed outside Europe into a genuine international force. The two most crucial developments have been last July's decision to link the Börse with the London Stock Exchange and then, six months later, the successful introduction of trading in the euro. Both were landmarks pointing to the eventual emergence of a single European economic space, with a single electronic stock exchange quoting prices from the continent's four corners.

That outcome would certainly please Mr Seifert. Perhaps partly because of his Swiss background, he has always had an international outlook that makes him impatient with those who cling to the idea of a stock exchange as an emblem of nationhood or a prestige symbol. Speaking in 1997, he called on "the crazy world of exchanges to stop their national chauvinism".

Equally, he believes that global competition leaves no alternative but for stock exchange chiefs to make doing business attractive and efficient for investors everywhere. At the Börse, Mr Seifert says 60 per cent of expenditure is allocated to information technology systems in a never-ending effort to make trading as simple, effective and cheap as possible.

He began by setting up alliances between Frankfurt and other exchanges in Austria, France and Switzerland, and would like to stimulate more investor interest in the young stock markets of central and eastern European countries such as Hungary and Poland.

But his vision extends beyond Europe. Co-operation with the Chicago Board of Trade, the world's largest financial futures and options exchange, and with Nasdaq, the US stock exchange for technology stocks, are among the projects linked to his name. "I will beg, borrow and steal every good product idea and every good concept," he said last year.

It was largely thanks to Mr Seifert that the Frankfurt exchange began six years ago to step out of London's shadow. Yet, as a former partner at the management consultants McKinsey who later moved to the reinsurer Swiss Re, Mr Seifert had at the time very little expert knowledge of stock exchanges.

What he did know, or what he at least intuitively suspected, was that the age of the euro and of remote-access electronic trading was dawning. Many were the sceptics in 1993 who, surveying the near-wreckage of the European exchange rate mechanism, predicted that the European single currency would never be born.

By contrast, Mr Seifert not only had faith in the euro but began making preparations for turning Frankfurt into the leading bond-trading centre of the future euro-zone. He executed his masterstroke in late 1997, when he launched his campaign to win for Frankfurt an increasingly large share of the lucrative trade in the bund, the German government bond futures contract.

Bund trading had previously been the preserve of the British derivatives exchange Liffe, but by last July, in the space of less than one year, Mr Seifert had secured 95 per cent of the market share for the Eurex, the Börse's derivatives exchange.

At roughly $2,000bn, London's stock exchange still had a market capitalisation roughly double that of Frankfurt. But the significance of Mr Seifert's bund success story escaped no one: he had shown that the London financial market's supposed supremacy in Europe was not something set in stone for eternity.

This was the fundamental reason why the London Stock Exchange decided last summer to throw in its lot with Frankfurt. The common trading platform seems unlikely to come into effect until early in the next century, but Mr Seifert has at least shown that good ideas, coupled with investment in the best technology, can reap rewards.

Mr Seifert's successes have made him perhaps the best known stock exchange chief in Europe and have considerably boosted Frankfurt's image as a trading centre. But that, he reflects, is not really what matters to him. "An efficient capital market, regardless of location – that is my dream," he says.

Tony Barber

SMALLCAP STOCK EXCHANGES by Sharmila Devi in London

Battle is on to acquire listings

Although Easdaq and Euro NM play down their rivalry, blue-chip consolidation may spill over into the smallcap sector and lead to the demise of one of them

Market statistics

	Euro.NM (Jan 31 1999)	Easdaq (Feb 26 1999)
Total number of companies listed	170	40*
Total market capitalisation	€ 43.355bn	€ 16.7bn
Total capital raised	€ 4.658bn	€ 1.7bn**
Average company capitalisation	€ 255.0m	€ 418m
Average company capital raised	€ 27.4m	€ 42m**
Average daily trading volume	€186.25m	€ 16.84m
Number of full members	620	75
Index change since Dec 31 1996	+482.7%	224.62%

* Only includes companies currently traded on Easdaq
** Excluding over-allotment

Sources: Euro.NM; Easdaq

EASI and other indices

Index	1999 Feb 26	Closing high*	Closing low*	Weekly change (%)	Year to date return (%)
EASI	979.15	1,121.17	535.14	2.38	22.48
Nasdaq Composite	2,288.03	2,510.09	1,419.12	0.19	4.35
Nouveau Marche Index	1,230.61	1,920.90	1,070.25	-0.54	-2.64
Neuer Markt Index - Floor	3,778.80	3,956.24	1,442.05	-2.82	37.58
NMAX Index	1,680.46	2,504.71	1,283.11	-0.55	-4.45
EURO.NM Belgium	1,778.79	2,729.03	1,344.67	9.71	11.57

Source: Easdaq — * 52 week

The battle to win the listings of Europe's young, high-growth companies is under way. The main combatants are Easdaq, the pan-European stock exchange, and Euro NM, an alliance of small-capitalisation bourses formed by some of Europe's national markets.

While the two exchanges play down the level of rivalry, some analysts believe the wave of consolidation that is engulfing the larger blue-chip markets may spill over into the smallcap sector and lead to the demise of one of them.

Both organisations were created to address the problems posed by Europe's fragmented network of markets, consisting of some 33 bourses governed by a raft of regulatory systems.

Easdaq, 63 per cent owned by eight institutions, appears to be struggling to hold its own against Euro NM, which links eight European markets in France, Germany, Holland, Belgium, Italy, Switzerland, Sweden and Denmark.

Easdaq failed to reach its growth target of 50 listings by the end of last year and now has 40 listings, compared to Euro NM's 170. In addition, Easdaq listings have raised only €1.7bn to Euro NM's €4.6bn.

A marketing blitz by Easdaq to win new listings has led to some gains, such as the recent announcement by Israel's largest cinema group, IT International Theatres, to list its shares on the exchange. But that was after Debonair, the UK-based low-cost airline, said it was considering switching its listing from Easdaq to London's main exchange to improve share liquidity.

"Euro NM may win out. It's regrettable that we, London that is, haven't participated in that but it's very early days. Whatever happens it does appear to be a step in the right direction," said one broker. "At some point, I think Easdaq is going to have to be incorporated as part of a single, pan-European exchange. We may see this sooner than we think."

Nonetheless, Easdaq is bullish on its future.

"When we formed in November 1996, we were ahead of our time as the euro was not with us then. Easdaq was set up to be a truly pan-European market, to concentrate liquidity in high-quality companies above a certain market capitalisation for institutional and retail investors," said Clive Pedder, marketing director of Easdaq.

He claimed Easdaq could truthfully call itself a pan-European exchange with its unified rules on admission, clearing and settlement, unlike Euro NM, which he called "a club of domestic market segments", which the alliance did not dispute.

"No, we're not a single market but what we do offer is a common platform, making it very easy for brokers to access and trade across all our member markets," said Robert Thys, marketing director at Euro NM. "In the absence of a single rule-book we do have harmonisation rules and a common admission system and companies are responding well," he said.

Both bourses also point to their differing focuses, with Easdaq's mainly institutional appeal compared to Euro NM's retail following.

Euro NM is keen to strengthen its position in London, perhaps through an alliance with the Alternative Investment Market, creating a segment for UK-based high-growth companies whose needs are not met at present by Aim.

But Easdaq claims to offer added value through its US partner Nasdaq, the successful US market for small and high-growth stocks. Easdaq, which has already rejected a takeover approach by Deutsche Börse, is also preparing for its own stock market listing next year on Nasdaq.

The success of these exchanges is obviously dependent on the buoyancy of Europe's appetite for growth company equity. European growth markets appear to have bounced back relatively unscathed from last year's turmoil.

"This tells us that smaller companies may start to come into their own after a period of persistent undervaluation," said Peter Ashworth, a broker at Tether & Greenwood.

But performance and interest in smaller and high-growth companies, some of which hope to be the blue chips of the future, varies widely across Europe.

The success of German high-growth stocks on the Neuer Markt, which accounts for the bulk of growth on Euro NM, stands in contrast to the performance of Aim, which has underperformed the FTSE 100 index.

While the launch of the euro means that companies trying to raise cash are starting to look beyond their national borders to the European arena, analysts point to the numerous obstacles that remain in the form of different systems of tax and regulatory systems. And within this haze, Euro NM and Easdaq will continue to do battle.

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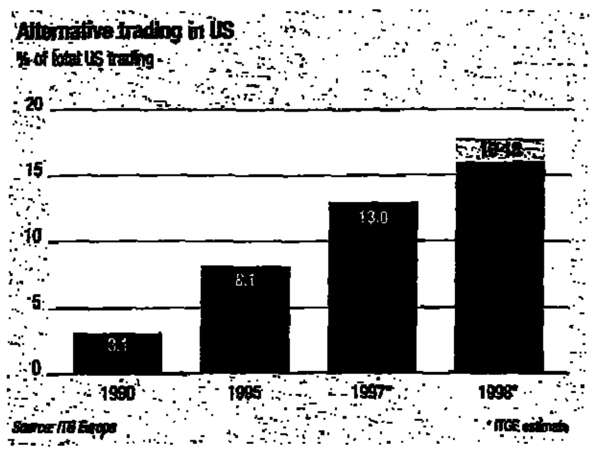
TRADING SYSTEMS by Vincent Boland

Dealers opt for the alternative

Many observers believe that within 10 years traditional stock exchanges will have disappeared unless they find new roles



If the stock exchange in its current form did not exist, it is unlikely anyone would invent it. As national exchanges face an increasingly uncertain future, especially in Europe, the whole industry is struggling to counter the greater and more immediate threat from alternative trading systems that allow shares to be traded outside the traditional platforms.

These alternative trading systems, little-known outside the relatively rarefied world of the equity market, have become active competitors to the main exchanges. What began as a trend in the US has now spread to Europe, while the internet has taken the phenomenon a significant step further. The current vogue for day trading in the US – internet stocks being traded on the internet – shows the extent to which the traditional ways of trading shares through stockbrokers and national exchanges is being completely transformed. Alasdair Haynes, chief executive of ITG Europe, which developed the Posit order-matching system that began operations in London at the end of last year after successfully capturing a big slice of trading in US stocks, estimates that 57 per cent of all US institutions and 82 per cent of those that manage more than $5bn assets use alternative trading systems.

These systems have several advantages over traditional exchanges. One is cost. Not only are they relatively cheap to set up – Tradepoint, one of the leading UK alternative trading systems, cost only £10m to establish, of which half went on technology – they are also cheaper to use. Transaction costs in Europe are widely considered to be high, and are higher than those in the US, and the ability to undercut these costs is one of the main reasons why alternative trading systems are gaining in popularity among European investors.

A second advantage is that investors prefer to be anonymous to reduce the impact cost of their transactions. A big fund manager or investment bank buying or selling a large order incurs such impact costs because of their reputation or size. If they can secure anonymity, bankers say, they can secure greater liquidity and lower bid-to-offer spreads, which taken together can substantially reduce the cost of their transaction.

There is strong evidence that a combination of lower costs and greater liquidity will automatically attract business from investors. Posit captured orders worth £15.5bn in UK stocks in its first three months of operation and claims to be receiving orders for matching worth £250m daily, of which 44 per cent is in the shares of constituent companies of the FTSE 100 index.

That would confirm a growing trend among alternative trading systems towards more mainstream trading. In their early days in the US, the systems were mainly used to trade Nasdaq and other stocks, and they captured only a tiny slice of business on the New York Stock Exchange. That is now changing.

Alternative trading systems work in different ways, and many insist they complement rather than challenge the traditional stock exchanges. They are based essentially on the principles of liquidity, low costs, speed of execution and "stealth" – the ability of an investor to trade on the buy or sell side anonymously.

Alasdair Haynes: alternative trading systems catching on

Instinet, which is a brokerage rather than, strictly speaking, a trading system, allows participants to display firm priced orders and execute them against other orders in the system, and has offices in all the leading financial centres. "It's about using technology to make the product more efficient," says Bradley Hunt, marketing manager for Europe at Instinet in London. "It gives us the ability to locate liquidity around the world in an anonymous fashion."

The Arizona Stock Exchange runs an electronic auction that collects orders and calculates the price at which the greatest number can be executed. Tradepoint displays orders on its screens from stockbrokers and fund managers against which other investors can execute their own trades.

But perhaps the biggest threat to the traditional role of the stock exchange as the main provider of liquidity is coming from the internal trading systems that the big equity market operators have been rushing to introduce in the past few years. Most of the big investment banks active in the equity market have introduced their own systems, and fund managers are also getting in on the act.

It is not difficult to understand why. What happens when a fund manager in one part of a big organisation decides to sell a security, while another fund manager from the same organisation wants to buy that security? It is to avoid paying commission and impact cost twice that orders are now frequently being matched in-house, which fund managers say saves substantially on costs.

Observers see the trend towards concentration of dealing continuing, especially as the global investment fund management industry is itself in the throes of restructuring and concentration in the hands of fewer operators. "You will see that as consolidation on both the buy and sell sides increases, more and more transactions will be done internally," Mr Hunt says.

Many observers believe that within 10 years traditional stock exchanges will have disappeared altogether unless they find new roles, such as becoming the platform through which new, young companies raise their first capital. Hans Christian Iversen, a partner at Deloitte & Touche Consulting, says that is the role that national markets must develop, especially in Europe, with the likely emergence of a "super bourse" that would list the continent's top 300 companies on a pan-European market.

PROFILE
JEAN-FRANÇOIS THEODORE

Turning point for SBF's chairman

Jean-François Théodore: relaxed and voluble — John Springs

Jean-François Théodore was relaxed and voluble earlier this month, in sharp contrast with the secretive man dodging questions on the margins of a conference organised six months earlier by Paris Europlace, the association set up to promote the French capital as a financial centre.

In retrospect, 1998 was a turning point for the chairman of the Société des Bourses Françaises, the organisation that runs France's stock markets and derivatives exchanges.

Last year got off to a bumpy start with a prolonged strike by "locals" – the self-employed speculators who provide liquidity – in protest at the Matif's introduction of NSC-VF, the screen-based trading system. They were followed by employees at several large derivatives trading houses, worried that electronic trading threatened their jobs.

These events were soon to be followed by delays in the Matif's participation in the Euro-alliance, a link-up agreed the previous year with the Swiss-German derivatives market Eurex which was later all but abandoned.

However, Mr Théodore's biggest challenge came in July, when the London and Frankfurt stock exchanges stunned the entire European financial community by announcing a wide-ranging strategic alliance. The move shocked the French financial community in particular, prompting some bankers to call for political intervention to stop the deal. Adding insult to injury, when the Deutsche Börse, which operates the German stock and derivatives exchanges, eventually invited the SBF to join the talks, it ruled out anything more than a junior role for Paris.

The acrimonious debate that followed weighed on the Euro-alliance project and no doubt contributed to its downfall in July.

Apart from a few minor glitches with Matif's newly-introduced electronic trading platform, the summer holidays proved to be the SBF's turning point.

Things started to look brighter in September, when the SBF reported a record number of new listings (98 since the beginning of the year and a waiting list of some 70 companies) – "ahead of London and far ahead of Frankfurt", according to Mr Théodore.

In November, Mr Théodore made his way back to the negotiating table with London and Frankfurt, as the talks were widened to include a total of eight exchanges. He was joined by Marc Viénot, the former chairman of Société Générale now heading Paris Europlace.

"The combination worked perfectly," said a French banker. "They re-invented the good-cop-bad-cop act."

While the last quarter of 1998 undoubtedly saw an uptum in the SBF's fortunes, events have unfolded at an even faster rate since the beginning of the year.

In a matter of weeks, Mr Théodore announced two ground-breaking alliances. The first, involving the Swiss and Italian stock exchanges, strengthened the SBF's hand in talks with its main European counterparts. The alliance, with SWX in Zurich and Borsa Italiana, allows members of each of the three exchanges to become members of the other two by the middle of the year. The first part of the agreement, linking the SBF and SWX, will connect the two exchanges' trading systems before the end of the year.

The other main event, a three-way alliance between the Matif, the Chicago Mercantile Exchange – the second largest derivatives market in the US – and the Singapore International Monetary Exchange, Asia's leading futures and options market, paves the way for 24-hour computerised trading in some of the most liquid financial instruments. It is based on the SBF's front-end technology, NSC-VF, and the CME's Clearing 21 system for settlements.

This alliance aims to promote the Matif's euro-denominated bond and interest rate instruments, and offers Matif's members access to the world's most actively-traded short-term interest rate product – the CME's eurodollar contracts on US three-month rates.

The SBF has also completed integrating Matif, the futures market, and Monep, the equity options exchange, with the cash securities activities.

SBF has been unsuccessful in its ambition to have the French government bond market become the benchmark for Europe. However, reassured by the success of Euribor, the euro-zone's newly-launched benchmark for interest rates on the euro, Mr Théodore has set ambitious targets.

Before the end of 1999, the SBF hopes to exceed 1,000 share listings. On the derivatives front, Mr Théodore plans to triple the number of Matif's trading screens to more than 1,500 on three continents – Europe, the US and Asia.

Other measures include accelerating the integration of Euro NM, the pan-European network of exchanges for growth companies.

In another challenge to London's dominance of financial transactions in Europe, the SBF is to launch Euro Depositary Receipts – certificates issued in lieu of foreign shares held in custody. EDRs will seek to capitalise on the euro's role as a future reserve currency, to challenge similar instruments denominated in dollars – the London Stock Exchange's Global Depositary Receipts and New York's American Depositary Receipts.

Samer Iskandar

CHICAGO DERIVATIVES by Nikki Tait in Chicago

Electronic threat prompts action

In spite of the disquiet, traders have had one big comfort – trading volumes hit record levels last year

Surging volumes have done little to ease the sense of disquiet in Chicago, as the growth internationally of electronic, screen-based trading poses a mounting challenge for established "open-outcry" markets.

When chroniclers of the derivatives industry look back on 1998, they may decide that this was the year when Chicago, home to the US futures industry, began to take the threat seriously.

The success of the German-Swiss Eurex exchange in snaring volume in long-term interest rate contracts from Britain's London International Financial Futures Exchange, followed by the speedy demise of open outcry at France's Matif once screens were introduced as an alternative, left the Chicago exchanges grappling to devise new business strategies.

Today, more than six months after the Matif upheavals, both the Chicago Board of Trade and the Chicago Mercantile Exchange have given some indication of how they intend to respond. The big question, as yet unanswered in a fast-changing business environment, is whether their plans will be adequate.

The smaller Chicago Mercantile Exchange, which is ranked third worldwide in terms of trading volumes last year, set out its response in a strategy review which was formally released to members at last November's annual meeting.

This sees the exchange make some big concessions to the electronic threat. It will step up the amount of automation on and around the floor – for example, giving traders hand-held units which allow them to link directly to the Merc's Globex electronic trading system.

Globex, in the past, has been used *primarily* as an "after hours" trading mechanism. But already, over the past 18 months, the exchange has begun to employ it during the regular trading day for a small number of contracts.

Now, much more significantly, the Merc plans to utilise Globex during the trading day for its flagship eurodollar contract, although regular pit-based trading will also continue alongside. This "side-by-side" trading plan should come into effect by mid-year and is partly a defensive response to the new bank-owned EBS electronic trading system for forward rate agreements.

The exchange, too, has been bringing on a number of new contracts. Its "e-mini" contract – the scaled-down version of its Standard & Poor's 500 contract, which was launched partly as a defensive move against the CBOT's use of Dow Jones indices for derivative products – has proved to be a big success over the past 18 months. Now the exchange is proposing a "mini" version of its Nasdaq 100 stock index.

More innovatively, perhaps, the CME has also launched "turn rate" contracts, aimed at the institutional market; a bankruptcy product; and is currently seeking permission to trade "weather" futures, based around average temperatures in Chicago and other cities.

Not all of these new contracts, however, have traded briskly in their opening months. Meanwhile, some swaps traders, working in the energy industry, also question whether weather derivatives may be better left as a customised over-the-counter product – at least until more investor familiarity builds up.

'Chicago exchanges have been left grappling to devise new strategies'

Finally, the exchange has been looking for strategic partners – drawn either from within the exchange/financial community or from among technology providers – to help expand its distribution and/or share the cost of developing on the technology front. Such a move could be accompanied by some change in the exchange's membership-owned structure, possibly to a more conventional for-profit arrangement.

Although traders have hardly been sanguine about the potential threat to their livelihoods, the Merc's plan has at least been steered through relatively smoothly to date. The side-by-side trading plan for the eurodollar contracts, for example, was overwhelmingly endorsed by the membership earlier this year.

At the CBOT, still the world's biggest futures exchange, matters have been more fraught. Until the end of 1998, this exchange, too, appeared to be moving down the path of alliances and side-by-side trading. It proposed linking up with Eurex, to develop jointly a new electronic trading system based around the European exchange's technology, which would then distribute both institutions' products. And, under competitive threat from the new all-electronic Cantor Financial Futures Exchange, it allowed daytime side-by-side trading for its key treasury-based contracts.

David Brennan: a third-generation independent trader won election as chairman AP

But resistance from various sections of the CBOT membership was evident from the outset. Independent traders opposed a plan by which the CBOT would have pooled its back office clearing operations with those of the CME. As a result, the larger exchange eventually rejected the deal – to the distress of the big trading firms who saw the move as a useful source of cost-efficiencies.

The decision to pull out of the Eurex alliance was more complex. Some larger trading firms viewed the open nature of the Eurex system – trading access extends beyond members, for example – as a competitive threat, while others worried about the cost of the commitment. In the midst of the Eurex debate, meanwhile, CBOT members voted to change the chairmanship of the exchange. Patrick Arbor, who favoured the Eurex alliance, lost a fight for re-election, and the job passed to David Brennan, a third-generation independent trader who has made it clear that he would like to see more electronic order inflow. He has indicated that he does not view alliances as likely.

Mr Brennan has also suggested that the exchange can build on its existing Project A electronic system, although few details of the cost and practicalities of doing so have been publicly disclosed. Project A has generally been viewed as a less-than-robust system in its present state – capable of handling only a modest number of transactions at one time, for example.

Much of the angst in Chicago over the electronic trading threat has been exacerbated by falling seat prices. But traders have had one big comfort: at both exchanges, trading volumes hit record levels last year, as markets worldwide became extremely volatile and investors looked to lay off risk. That surge in business – particularly on the financial products side – has at least helped to mitigate traders' concerns.

DERIVATIVES EXCHANGES by Edward Luce

Future is uncertain after frantic year

The division of spoils between the three leading exchanges in the new euro-zone is far from settled

It has been a frantic 12 months – probably the most frantic ever – for Europe's leading derivatives exchanges. Driven by technology and the seemingly inexorable drive to concentrate liquidity, exchanges have been demutualising, merging and switching to electronic trading.

Yet the conundrum is by no means over. Although both Liffe and Matif have embraced screen-based trading, the division of spoils between the three leading exchanges in the new euro-denominated market is far from settled.

Nor is it yet clear which exchange will jump into bed with which in spite of Matif's efforts to set up a global alliance (Globex) involving the Singapore International Monetary Exchange and the Chicago Mercantile Exchange.

Eurex, the product of the merger between the Deutsche Terminbörse and Soffex, the Swiss exchange, was effectively jilted at the altar by the Chicago Board of Trade following the election of David Brennan as its new chairman last November. The potential alliance between the two was killed by Mr Brennan's lack of enthusiasm for switching to screen-based trading (and his objections to the high development costs of setting up a joint platform).

French officials say that Globex, which will also include the participation of Miff and Meff, the Italian and Spanish exchanges, stands a greater chance of survival not least because the main participants have already agreed on the trading platform. The alliance remains the only truly global tie-up to have emerged so far.

Given Mr Brennan's repeated wish for the CBOT not to enter any alliances in the near future, this leaves both Liffe and Eurex without any obvious allies. Except perhaps each other? "We would not rule out an alliance with Frankfurt but the probability is very low," said a senior official at Liffe.

The same objections would apply to a tie-up between OM – the Swedish exchange, which has recently launched futures on the Swedish government bond market – and either of the two leading European exchanges. Last, judging by the animosity which still lingers between at Matif and Eurex, following the breakdown of their alliance last year, there is little scope for further consolidation within the euro-zone.

"It is difficult to envisage any more alliances between European exchanges yet the logic for creating just two or possibly even one platform is every bit as strong as it is between Europe's stock exchanges," said the head of derivatives trading at a US investment bank.

And this logic grows more compelling by the week. In the aftermath of the launch of the euro, it has become clear that Europe has room only for two large volume interest rate contracts: the future on three-month euribor – the Brussels-based reference rate for inter-bank lending in euros; and the future on the 10-year German government bond. Other contracts, such as the future on the five-year German government bond (the Bobl) and the future on the Notionnel, the French government bond, remain viable but insufficiently liquid to sustain the ambitions of an exchange. Daily volume in the German long-bond has been 10 times the level of that on its French counterpart on many occasions since January 4.

In addition, market users say there will probably be room for liquidity in just two or three contracts on the range of indices on panEuropean equities now on offer. These are provided by Morgan Stanley Capital International, FTSE International, which is 50 per cent owned by the Financial Times, and Stoxx, which is partly owned by Dow Jones. Again, much as with the 10-year German bond or the Euribor contract, which is dominated by Liffe, liquidity is likely to concentrate rapidly once it has become clear which contacts are in the lead.

Second, growth in the OTC derivatives market continues to outstrip growth in trading of exchange-listed derivatives. Although the exchanges are looking at ways to co-opt some of this volume – with Liffe having launched (so far unsuccessfully) products based on the swaps market – the OTC market seems to be more adept at borrowing features of the exchange market.

For example, OTC products are becoming more standardised – especially in the interest rate swaps market – and clearing houses, such as the London Clearing House, are looking at providing counterparty services for the swaps market. This would almost eliminate counterparty risk for those trading in the more standardised parts of the OTC market.

Third, although locals continue to trade on the Liffe floor, the advent of electronic trading is likely to result in the further marginalisation of self-employed traders.

The separation of trading permits from share ownership is likely to result in a continued shift of power from members towards large market operators, notably the investment banks, whose representatives in many cases simultaneously sit on the boards of competing exchanges.

All of which suggests that the exchanges will continue to face a very rocky future.

New York traders react as the Dow Jones Industrial Average tops 10,000 on March 16 this year

Picture montage/AP

US by John Labate in New York

Wall Street feels the tremors

A string of upstart companies known as ECNs are reshaping the way trading is done in many leading stocks

The rustle of tremors are increasingly being felt on Wall Street. The act of bringing buyers and sellers together in a market place is undergoing some of the most substantial changes in more than a decade. The next several months could be crucial. The traditional US trading markets are likely to respond to the rapid technological and policy transformations that are sweeping through the market.

No one can predict the outcome. What is clear, however, is that recent advances are giving institutional and retail investors greater freedom to trade more directly and at less cost than ever before, driving trading commissions downward and increasingly reshaping the way trading is done in many leading stocks.

At the forefront are a string of upstart companies known as ECNs, or electronic communications networks, that control a rising share of equity transactions in many leading companies.

ECNs are electronic brokers that operate as mini-exchanges, matching buy and sell orders for a minimal fee on their own fast electronic networks. They are private entities regulated by both the Securities and Exchange Commission and the National Association of Securities Dealers, the same body that oversees the Nasdaq market.

Customers included leading institutional brokers as well as individual investors who trade through internet-based brokers such as E*Trade, Charles Schwab and Datek. The largest ECN is Instinet, the division of Reuters that was founded in 1969, although most of the others have been around for three years or less.

To many, the rise of the ECNs presents a real challenge to the two dominant equity trading markets, the New York Stock Exchange and Nasdaq. "It's an opportunity to level the playing field and break the monopoly of those exchanges," said Dan Burke, brokerage industry analyst at Gomez Advisors.

The advantages held by ECNs are in their technical efficiency and price. There is no human interaction with ECN trading, all is done through automation. Buy and sell limit orders enter an ECN system and are matched within split seconds. Rather than making money on the spreads, or difference between the buy and ask orders, ECNs charge fees when a match is made.

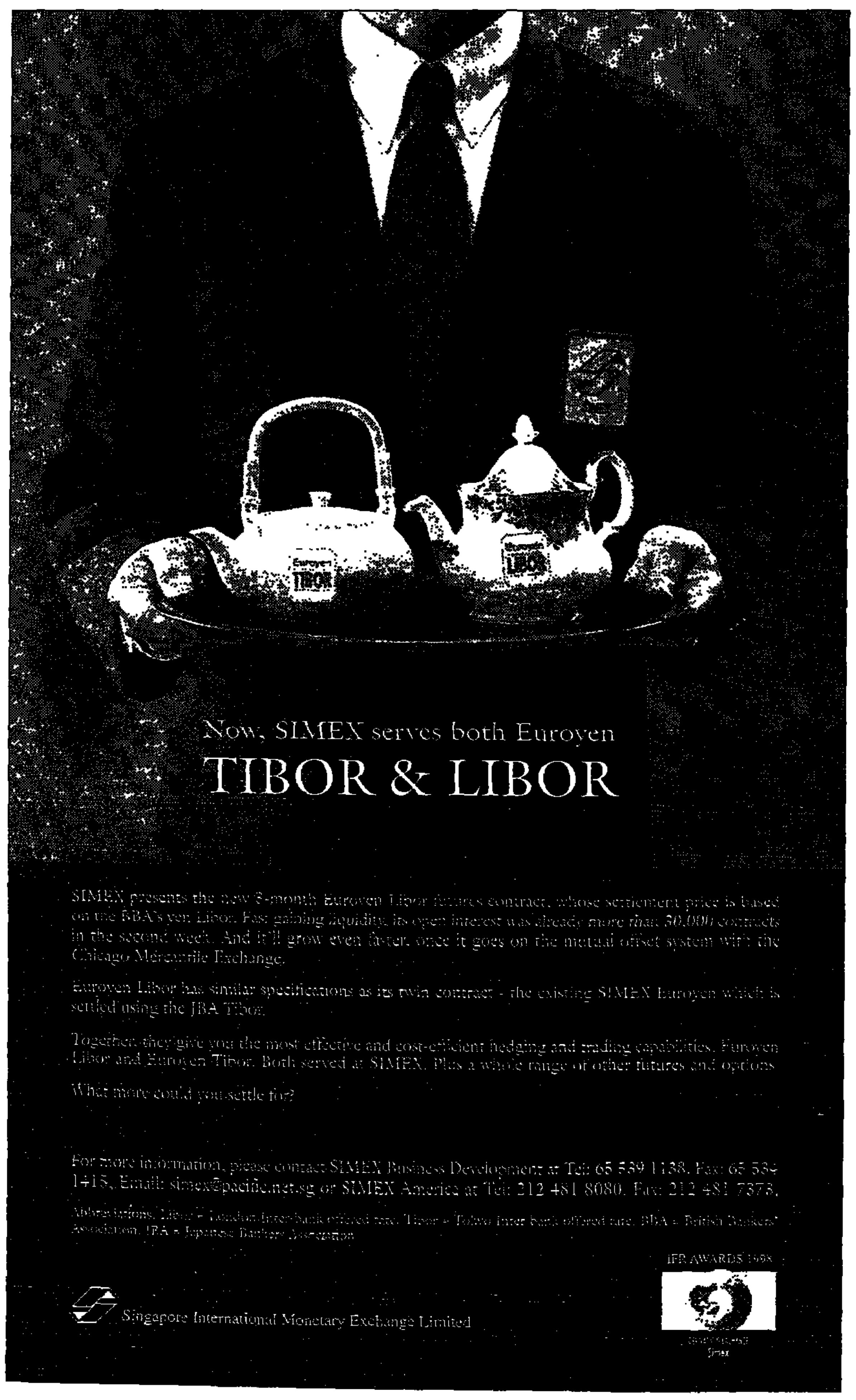
The speed at which they can process trades and their low fees are ensuring bigger shares of trading volume in the hottest and most volatile stocks. The largest competitors already handle a substantial volume of Nasdaq stocks. As a group they process slightly more than 30 per cent of all Nasdaq-traded stocks. In February the second largest ECN, Island, a division of Datek Holdings, processed 10 per cent of all trades in Dell Computer and 21 per cent for Amazon.com.

Another reason ECNs pose a threat to the main exchanges is the backing they have received from leading Wall Street firms which are also NYSE member firms. In January, Goldman Sachs paid for a 25 per cent stake in Archipelago, one of the smaller-scale ECNs. Bear Sterns and Lehman Brothers have recently formed partnerships with the eighth largest ECN, Strike.

Some of the most aggressive ECNs want to break out of their limited Nasdaq trading and trade in much sought-after stocks on the NYSE. For now they are blocked from doing so, but that may change. In April, the SEC will begin accepting applications for exchange status, a move that could be all that stands in the way of ECNs from entering NYSE trading. For its part the NYSE is in talks with ECNs and a future link is possible. It remains to be seen how much longer such regulations will protect the member-based NYSE.

The rise of the ECNs may also increase the speed with which trading hours are extended in US stock trading, but here the outcome is even less certain. At the moment such after-hours trading does exist through Instinet, which is considered an important way that institutions trade stocks after the market's normal 4pm close. Such trading can be important since many companies announce earnings results or other announcements at such times. The problem for greater after-hours trading is whether sufficient liquidity exists to drive trading for more investors. Without such liquidity, matching buy and sell orders will become even more difficult.

At least one ECN, Eclipse Trading, is taking the gamble that sufficient individual investors will create that liquidity. Eclipse announced in March that it will begin after-hours trading for individual orders during the summer months, with its partners Discover Brokerage, the online trading division of Morgan Stanley Dean Witter, and Bernard L. Madoff Investment Securities.



AUSTRALIA by Gwen Robinson in Sydney

Record trading as merger talks go on

The futures and stock markets have benefited from Australia's remarkable economic resilience in the face of Asian turmoil

Australia's stock and futures exchanges are at the forefront of the country's push to become a regional financial centre, with a merger proposal which could see the two exchanges combine forces, possibly within the next 12 months. The merger talks, which are likely to be concluded by June, follow moves by both exchanges to expand and revamp their operations.

The Australian Stock Exchange last year became the world's first stock market to list on its own boards, in a move which Richard Humphry, ASX managing director, described as "truly revolutionary".

"A handful of other exchanges took the first step of demutualising, but none has listed. I don't count the case of Stockholm, which demutualised and later became a subsidiary of a company that was already listed," he said.

Ahead of the ASX's compliance listing last October, the exchange's 606 members each received 166,000 shares for their initial investment of A$25,000 in membership fees. Since then, the shares have more than tripled in value, soaring nearly 220 per cent to about A$13.50 from their debut price of A$4.10. Against a backdrop of record trading levels and market strength, ASX's market capitalisation is now approaching A$1.5bn.

ASX is also planning to expand and restructure its benchmark All Ordinaries index, currently a single index of nearly 265 stocks. Under its preferred model, the All Ords would become a two-tiered index of about 350 stocks, consisting of two separate indices – ASX 100 and ASX 250 – based on liquidity criteria. The proposal triggered heated debate among funds managers and brokers, many who warned that second-tier stocks would suffer from their secondary status. ASX has invited submissions on the proposal and discussions should be completed by June, Mr Humphry said.

The Sydney Futures Exchange, meanwhile, has also enjoyed a record year of trading activity and has forged ahead with its bold move to switch to a fully electronic system – the world's first sizeable futures exchange to take the leap. By October, SFE plans to phase out traditional open-pit trading and replace it with a new, automated system. The switch comes as SFE prepares to launch a range of new indices and derivative contracts, currently being developed in a joint venture with Dow Jones Indexes. The first two or three indices, which will most likely be based on regional markets, will be launched in the coming months.

The next logical step, according to both Les Hosking, SFE's chief executive, and Mr Humphry of the ASX, is to combine the two exchanges. Both the futures and stock markets have benefited in the past year from Australia's remarkable economic resilience in the face of Asian turmoil. Domestic economic growth of nearly 5 per cent in 1998, historically low inflation and strong corporate earnings have buoyed investor sentiment. Asia's economic woes have also prompted overseas funds managers to shift more regional funds into Australia.

'The Australian Stock Exchange last year became the world's first stock market to list on its own boards'

But there are already signs of a slowdown in Australian economic growth, reflected in recent data which showed plunging capital investment plans and slowing export growth. At the same time, other regional exchanges such as Hong Kong and Singapore are moving to improve their competitiveness, with, among other plans, proposals to merge stock and futures exchanges.

For ASX and SFE, it is not just a question of enhancing international competitiveness. "It's a question of survival," said Mr Hosking. But any merger would have to be approved by SFE's members as well as regulators. The benefits of a merger, which would require SFE to demutualise and become part of the listed entity, would include the chance for both exchanges to rationalise their costs and systems, including clearing arrangements. It would also reduce costs for the many users who operate in both markets. "It would also unite the focus of our regional ambitions," Mr Hosking said.

A merged exchange for both futures and stock trading would create a much more competitive market place for building financial centre status. "The better capitalised you are, the more concentrated your liquidity is, and the more you can attract more liquidity – and we have to develop that side of the market to remain competitive."

ASX, meanwhile, is proceeding with other expansion plans, including talks with the US-based Nasdaq exchange which could lead to agreements for the two exchanges to trade each other's stocks.

In its first interim report since listing, ASX last month said net profit had nearly doubled from the level forecast in its prospectus. In the six months to December, its net profit reached A$23.4m, including an extraordinary gain of A$7m related to future income tax benefits, ASX said. Trading volumes on the exchange – Asia's second largest behind Tokyo – were 19 per cent above prospectus forecasts in the period.

If market activity continued at its current high level, ASX could expect to report an even higher second-half profit, possibly nearly doubling prospectus forecasts of A$17.8m net operating profit for the year to June, Mr Humphry said.

Analysts, however, said the full-year result would depend on factors including domestic economic conditions and the outcome of the exchange's expansion plans.

JAPAN by Naoko Nakamae in Tokyo

Deregulation opens doors slowly to investors

Japan will have to wait until its economic problems are sorted out before it can really enter the big league in derivatives markets

Last December, Japan's first covered call warrants were issued on NTT DoCoMo shares. Covered call warrants, and other over-the-counter derivatives, have been allowed as tradeable securities since December 1, as part of the rolling programme of financial deregulation taking place in the country.

So far the response for NTT DoCoMo warrants has been muted, mainly because the domestic brokerage houses which will be distributing the product, have been waiting for a few details to be ironed out. But they all agree that there is demand out there, especially since the product will enable retail investors to have leveraged exposure to NTT DoCoMo shares, which are normally too expensive for them.

The situation reflects the current state of Japan's fledgling equity derivatives market. Regulation is being relaxed to allow the development of a range of new products and investors agree that the market has huge potential. The question is how to go about unlocking it.

Certainly, Japanese investors, who have long been considered extremely risk-averse, are altering their attitudes as their needs change. Domestic companies are slowly beginning to use equity derivatives for a wider range of purposes.

"Japan is beyond the days when large corporates thought that doing nothing was equivalent to taking no risk – most of them now appreciate that doing nothing can be a huge risk," said Henry Fajemirokun, head of derivatives at Barclays Capital in Tokyo.

Large demand is likely to come from such domestic institutions which want to get rid of, or reduce, asset exposure in shares of fellow *keiretsu*, or business group members. Equity derivatives enable them to hedge their exposure while keeping ownership of such shares stable.

"I expect there will be a lot of demand coming from companies who want to do this," says Atsushi Ishii, a manager in the investment department of Tokio Marine and Fire, Japan's largest non-life insurer. "Alternatively, they can sell call options as well."

There is also great potential foreign demand since many foreign investment portfolios have underweight positions in Japanese equities.

"Foreign investors' worst fear is that they will underperform benchmark indices (with their underweight positions). Therefore there is a good chance that a lot of money will flow into the Japanese equity market once the perception that a 'real' change is occurring in Japan takes hold," said Alastair Beattie, senior general manager of the structured products department at Société Générale in Tokyo.

"The phrase *'yoake no mae ga ichiban kurai'* [it's darkest just before dawn] seems to strike a chord with many investors these days. [Normally] they are much more cynical but [now] they are much more believing," he added.

And other fund managers are also considering selling mutual funds which offer investors certain capital guarantees, by using over-the-counter derivatives.

The question is whether the changing deregulatory environment will sufficiently enable Japan to unlock the huge potential domestic and foreign demand. So far, the primary OTC equity derivative market is $12.6bn, a mere drop in the ocean compared to the whole OTC derivative market which has a notional $13,291bn derivatives transactions outstanding. The bulk of the market is still in interest rate swaps which account for more than two-thirds of the market.

'Japan is beyond the days when large corporates thought that doing nothing was equivalent to taking no risk'

But there is still much work to be done to bring the system up to scratch. The absence of a rigorous accounting system is one important stumbling block. At the moment, the market lacks coherence as some institutions mark-to-market, while others accrue losses. When two counterparties which use differing accounting methods enter into a transaction, discrepancies can occur when one side books a profit, while the other accrues, rather than books, the loss.

Japan will finally make mark-to-market accounting mandatory in 2001. Foreign investors welcome the change. "Once that is implemented, everyone will be on the same playing field," says James Fingh, managing director at Warburg Dillon Read in Tokyo.

The way the Financial Supervisory Agency is shaping its role as financial watchdog since its establishment last July, has also met cautious approval from foreign investors. The combination of an opaque accounting system and complex derivative structures has allowed some institutional investors to keep some of their transactions off their books.

But the FSA now seems to be cracking down on the misuse of derivatives. "They've proved to be active in the past few months," said an investor.

But some foreign investment bankers point out that while Big Bang helps on the margin, in the short term, without an economic recovery, the market is unlikely to grow rapidly.

Despite the deregulation process, the sluggish economy is keeping liquidity levels low. Real foreign demand will not be forthcoming without signs that the economy is turning around. As for domestic investors, the stock market's sharp decline has meant that many have unrealised losses on their equity portfolios, and are averse to locking such losses in by using derivatives to hedge their positions.

The process of deregulation is slowly getting rid of the regulatory irritants that prevented Japan from being a leading contender in the derivatives world. But it will have to wait until its economic problems are sorted out before it can really enter the big league.

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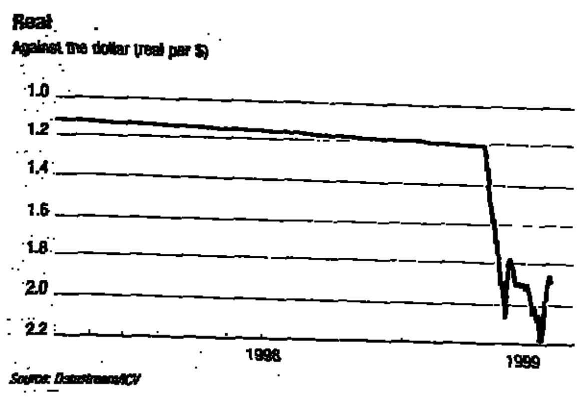
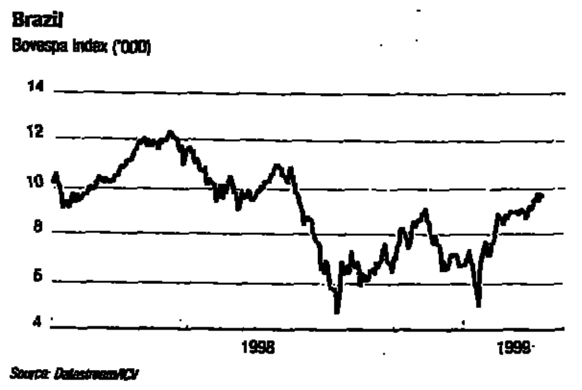




LATIN AMERICA by John Barham in São Paulo

Crisis causes investors to turn their eyes away

The slump in equity values has overshadowed progress in modernisation of exchange installations

The emerging market crisis, now well into its second year, has swept Latin America's stock exchanges almost completely off the radar screens of international investors.

However, the slump in equity values has overshadowed progress in modernisation of exchange installations, the growing role of local and international institutional investors, improved regulation and the spread of more demanding standards of corporate governance.

True, the crisis has highlighted some traditional handicaps, such as thin liquidity in all but a handful of stocks and reliance on international capital flows. Local and international investors still view Latin American equity markets as little more than gambling dens of varying degrees of sophistication.

Yet, advances in management of exchanges are also creating an improved trading environment, which, as Mexico is demonstrating, is beginning to overcome these and other long-standing weaknesses.

Mexico has absorbed the shock of devaluation and a serious economic crisis in 1994 and its membership of the North American Free Trade Agreement (Nafta) has spared it the worst of the emerging market contagion. It has also made the greatest advances of all the region's big markets. In January, it moved to a fully electronic trading system, which has boosted liquidity, narrowed spreads and attracted business lost to foreign stock markets, particularly New York.

Many leading Mexican companies are listed in the US either directly or in ADR form and liquidity had migrated to New York. Mexico City was in danger of becoming a backwater. Guillermo Medina, assistant director of the Mexico City Stock Exchange, says "trading [had] to become more agile to increase the number of operations in the market. I can say we have achieved this."

Daily trading volumes are 98.1m now, compared with 73.2m a year earlier. The number of orders has risen to 7,362 from 1,316 in 1998. Spreads have tightened by 54 per cent. This has cut into brokers' profits and together with a restructuring at the exchange this has driven down the value of the market's 22 seats.

It is hard to be optimistic about the medium-term outlook for markets in the rest of the region because the succession of emerging market crises and the collapse of Brazil's real has hit equities so hard. The real, which has lost almost 40 per cent of its value since January 13, upset an entire region already left fragile by the Russian default five months earlier. Last year, the São Paulo market's Ibovespa index of 56 blue chips fell 35 per cent in dollar terms. In January and February it fell another 23 per cent.

In spite of all its troubles, São Paulo still boasts the region's biggest and most developed equity market with a market capitalisation in February of US$107.15bn. The São Paulo exchange operates parallel open outcry and electronic trading systems. Soma, a separate Nasdaq-style electronic market, started up in 1996 and now lists 98 companies and seven investment funds. It also has 29 market makers.

A large and aggressive investment industry has sprung up in the past five years but has had to contend with high real interest rates that have stunted equities: share prices fell 35 per cent in real terms last year while fixed income investments gained 26 per cent. Equity fund managers thus have to work very hard to earn reasonable returns. Some small funds, such as Dynamo in Rio de Janeiro, have taken an active role in management of companies and occasionally stridently defending minority rights, both relatively new concepts in Brazil. Crucially, activists have the ear of the CVM, the government's equity market regulator.

> **'Mexico has absorbed the shock of devaluation and a serious economic crisis in 1994'**

However, Brazilian law still protects core investors, usually families, by allowing them to issue two non-voting shares for every voting share. This means they can wield full control with as little as 16 per cent of a company's total equity. The second-class status of preferred shares is becoming a subject of debate, but the authorities have shown little inclination to deal with this complex issue.

Argentina has suffered the most fallout from the real crisis after Brazil itself. Share prices in Buenos Aires began slumping after the emerging crisis first broke in 1997 and then slid faster as Brazil, a key trading partner in the Mercosur customs union, devalued and sank into recession. The turmoil prompted President Carlos Menem to propose taking his seven-year experiment with a currency board, which pegs the peso at parity with the US dollar, to its ultimate conclusion: adoption of the greenback as the country's sole currency.

This could have a dramatic effect on Argentina's financial markets by eliminating the risk of devaluation. Interest rates would drop closer to US levels and equity investors would rate companies more on their intrinsic value and their trading environment, stripping out foreign exchange risk. Christopher Ecclestone, of Buenos Aires Trust Co, argues this would further boost the market by setting Argentina apart from its refractory giant neighbour once and for all.

This controversial process would take several years to be implemented, even assuming that it receives the blessing of US authorities worried about taking ultimate responsibility for regulating – and perhaps having to bail out – Argentina's banking system. Although the banks are in generally good health, all the country's big banks are now foreign-owned making regulation all the more complex.

Trading activity throughout the region is likely to remain subdued at best until Brazil manages to stabilise its economy and drag itself out of recession. However, there is a chance that when international investors are ready to consider investing in the region again, the equity markets will be a fitter place to handle their investments.

NORDIC MARKETS by Nicholas George

Consolidation will be a reality in May

Rules and settlement procedures between the Stockholm and Copenhagen stock exchanges have been harmonised

Per Larsson: 'turnover is what we live by'

According to Tyge Rasmussen, managing director of the Copenhagen Stock Exchange, there is a clear distinction between stock market consolidation in the Nordic region and that in the rest of Europe.

In the Nordic region consolidation "will be a reality this spring while most of the other action is just talk at the moment", Mr Rasmussen states assuredly.

On May 14, the link between the Stockholm and Copenhagen exchanges will go live forming the Norex alliance. Elsewhere in Europe there are plans, while in Scandinavia there will be trade.

After a few simple formalities the 53 members of the Stockholm exchange and the 26 members of the Copenhagen exchange will become members of both, with the exchanges waiving the normal entrance fees. After months of negotiations,rules and settlement procedures have been harmonised and brokers will have access to both markets and their order books.

With only a few minor exceptions trading regulations on the two exchanges will be identical allowing brokers to trade without having to consult constantly separate rule books.

The key to the alliance is the shared computer platform with both exchanges moving to the SAX2000 system. This means brokers will be able to run both markets side by side on their own terminals, using the same techniques and commands to execute trades in Copenhagen and Stockholm.

In the short term, the main beneficiary is seen to be the Copenhagen market on which the number of remote users will jump sharply. The process of harmonising the rule books has also allowed the Danish exchange to update its trading methods which still bore the mark of the country's more dominant bond market.

Despite the enthusiasm of the participants the co-operation only marks a small step in the process of European market consolidation with the joint market remaining relatively small. Stockholm has a market capitalisation of around SKr2,400bn (US$292bn) and an average daily turnover of SKr10.3bn with Copenhagen a capitalisation of around DKr800bn (US$117bn) and a daily turnover of DKr1.8bn.

Moreover, plans to expand the alliance to create a truly Nordic bourse have stalled. Norway is currently holding a strategic review of its position and considering whether to join Norex or the alliance between Frankfurt and London. Even if Oslo does pick the Nordic alternative the co-operation is likely to be more limited due to technical difficulties.

In February, the Olso Exchange launched it own new computer trading system which so far has avoided many of the teething problems normally associated with the introduction of such systems. However, although it is probably possible to link it to Norex the system cannot be easily integrated into the SAX2000 platform adopted by Stockholm and Copenhagen meaning many of the benefits of a common trading environment would be lost.

Another condition for any Norwegian link with Norex is likely to be that entry into a Nordic alliance does not preclude a future link with the London-Frankfurt partnership.

For Tyge Rasmussen at the Copenhagen Exchange this is not a problem. He does not see the Danish exchange excluded from developments in the main European countries because of its alliance with Stockholm. What Norex offers is the chance to expand now, not a once and for all alternative to the alliances elsewhere.

"The Frankfurt and London link is not going to be ready this year , and not ready next year," Mr Rasmussen said, adding that in his view it was unlikely to really get off the ground before 2002.

In Finland, the Helsinki Stock Exchange is firmly in the Frankfurt camp. Finland is the only country in the Nordic region that has entered the euro-zone and the bourse is keen to make the most of the common currency by cementing alliances with other euro-zone countries.

Far from entering an alliance with Stockholm the Helsinki Exchange is now battling its Nordic neighbour to become the prime market for trade in Nokia, the Finnish telecommunications equipment manufacturer which is by far its most liquid share.

Stockholm's recent announcement that it is to open an hour earlier, and therefore 30 minutes before Helsinki, is partly an attempt to win Nokia trade away from Helsinki.

At present trading in Helsinki begins half an hour before it does in Stockholm. In this half hour volumes in Nokia build quickly as the share adjusts to its closing level in the US. By opening earlier, Stockholm aims to capture this early momentum.

"Turnover is what we live by and for us to serve our members we need to open at least at the same time as Helsinki," said Per Larsson, chief executive of OM Gruppen the listed company which owns the Stockholm Exchange. Mr Larsson accepts that the move may upset Helsinki but says it is a sign of the new competitive environment in which markets find themselves.

For Stockholm, Nokia is a vital part of its future plans to profile itself as a centre for trade in telecom stocks. In the past year Stockholm has won back much of the trade in the Swedish telecommunications equipment maker Ericsson from the Nasdaq exchange in the US. In January 1996 only 37 per cent of the daily turnover in Ericsson was conducted on the Stockholm Exchange. By January 1999 this figure had risen to 74 per cent. The move to extend Stockholm's opening hours to 10pm is aimed at bringing back even more of the trade in Ericsson from New York.

With a dominant position in two of the world's top three mobile telecommunications equipment manufactures, OM Gruppen hopes eventually to attract new listings, seeing markets as much defined by sectors as by geography.

CHINA by James Harding in Shanghai

Contradiction in markets

Many people have rediscovered the religion of investment, but the environment is short of China's ambitions for its financial sector

The pews at the old Russian Orthodox Mission Church in downtown Shanghai have long been ripped out and replaced with functional orange plastic chairs. The old floor has been covered with grey marble slabs and by the end of the morning is littered with cigarette butts. The old icons that used to hang on the walls have gone and huge screens flashing green and red numbers have taken their place.

The building is now home to one of Shanghai's many retail stock trading parlours. The place is similar in mood and smoky atmosphere to an off-track betting shop. On any weekday, there may be dozens of people hanging around, watching the share prices move, churning market rumours, taking the occasional small-scale punt or, instead, betting on a game of poker.

A couple of miles away in the emerging business district of Pudong, the new Shanghai Stock Exchange building designed as a modern echo of the Arc de Triomphe houses Asia's largest trading floor. Rows of red-jacketed brokers sitting in a pristine, state-of-the-art exchange work a fully-computerised trading system in a quiet business-like hum.

There is more that divides the two than just geography. The Shanghai Stock Exchange is a monument to the potential future of China's capital markets, while the dimly lit trading shop in the old church says much about the current character of the Chinese securities industry. Many people have rediscovered the religion of investment, but the environment is smoky, speculative and well short of China's own ambitions for its financial sector.

Over the past year, three developments in the industry have been similarly contradictory. They have underlined the potential of China's securities and derivatives business, but exposed the extent of present problems.

First, the passage of the Securities Law after a six-year wait has finally given legal underpinning to the young stock markets in Shanghai and Shenzhen. But the legislation skirted some of the crucial issues that threaten the progress of the Chinese financial services industry, such as derivatives and debt issuance.

The law marked an important, if cautious, step on China's road towards becoming a modern market economy. The broad legal framework puts in order the many regulations, directives and policy guidelines that have accompanied the development of China's volatile young markets.

But, while the legislation reinforces penalties for abuses such as insider trading and theft of investors' funds, market analysts have noted the law simply does not provide for many areas, particularly the issue and trade of sophisticated instruments such as financial futures and options.

Second, the stock market regulator has had some effect in pressing listed Chinese companies to inch towards a semblance of transparency. But, the result has been to expose the extent of malpractice and irregularity in the business of listing and trading shares – not to mention flush out an unprecedented number of profits warnings.

Stock markets in Shanghai and Shenzhen, which have grown over the past nearly nine years to boast more than 800 listed companies, have tended to be gossipy, volatile and riddled with financial irregularities.

Last year, greater transparency flushed out Chengdu Hongguang, the television component maker, which claimed to have generated substantial profits to secure a listing on the Shanghai stock exchange in 1997. The company had actually made a loss of RMB103m.

Third, and perhaps the most striking contrast of all, the so-called A-share exchanges for domestic investors, insulated from global financial forces by China's restrictions on foreign exchange, have remained relatively buoyant despite the Asian disease. But, the foreigners' B-share markets have slipped ever deeper into coma.

While the A-share markets' total capitalisation has reached around $240bn, the value of the B-share markets, as prices have slipped to one historic low after another in the last few months, is just about $2bn – one of the tiniest markets in Asia. While new issues on the domestic markets have gone off at a price/earnings ratio of 22, foreign investor share issues have struggled to make a debut at a price 5.5 times earnings.

The malaise in the B-share market is symptomatic of profound structural problems.

The foreign-currency share markets have suffered a long-term liquidity drain. As the perception of an illiquid market has taken hold so, too, has international reluctance to invest in B shares, creating a downward spiral of diminishing liquidity.

The prospect of a freely convertible currency, which would logically entail the merger of the foreign and local-currency stock markets and be a boon to holders of B shares trading at a discount to their A equivalents, has drifted further over the horizon since the beginning of the Asian financial crisis.

The passage of securities laws that broadly ignore the foreign-currency stock markets underlines the opinion that B shares are being left out in the cold, the victim of official neglect.

As Chinese companies face fewer restrictions in raising money directly on international capital markets, they now generally turn to Hong Kong for overseas fund raising. The domestic foreign currency stock markets, which started out as an experiment, now look increasingly like an historical anomaly.

International investors and many foreign brokerages in all but name have withdrawn from the mainland's stock markets.

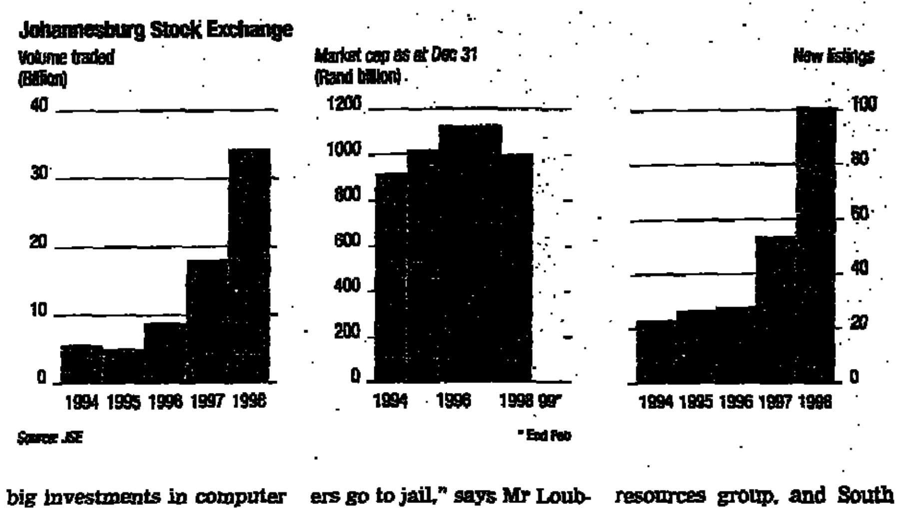
There are suggestions that government may try to revive the B-share markets. But the developments of the past year suggest that before China's financial markets join the big international leagues, Beijing will have to come round to some fundamental and painful changes – namely, legislation to enable a modern derivatives industry, the development of an open corporate culture and a sense of shareholder rights and a fully convertible currency.

For some time, then, Chinese domestic investors will have the trading floor at the old Russian Orthodox Mission Church and the new Shanghai Stock Exchange more or less to themselves.

SOUTH AFRICA by Victor Mallet in Johannesburg

On the move to electronic settlement

The JSE has offered the use of its technology to the nine smaller markets of other countries in southern Africa



After 112 years in the city centre, the Johannesburg Stock Exchange has decided to join the exodus of businesses to the relatively crime-free shopping malls and office blocks of Sandton in the northern suburbs. But the relocation is only one of many changes being made by the JSE as South Africa re-integrates itself into the global economy five years after the end of apartheid.

The most important step is the move to electronic settlement of trades through the JSE's Share Transactions Totally Electronic, or Strate.

It was only three years ago that the exchange moved from open outcry to screen-based trading, and now it urgently needs to improve its cumbersome settlement procedures, which are unable to cope with fast-rising volumes. In the past four years, the number of trades has risen from a few thousand daily to a record of nearly 30,000 in a single day.

The JSE, sophisticated in many other respects, has the worst cross-border settlement record of 20 leading emerging markets. "Strate is not just nice to have – it's an imperative," says Monica Singer, Strate general manager.

Strate, under which all shares will eventually have to be "dematerialised" for settlement, will start by dealing with illiquid shares in the next few months. The target is to have all quoted securities settled electronically by July 2001.

The present, rather lax one-week settlement period will be replaced by a vigorously enforced rolling T+5 system – trades must be settled five working days after the deal – and eventually T+3.

Gill Marcus, deputy finance minister, says Strate will help to clear the market of fraudulent scrip because banks and brokers will have to scrutinise share certificates for authenticity when they dematerialise them for the electronic register. It will also encourage foreign investors.

The JSE has also offered the use of its trading and settlement technology to the nine, much smaller, markets of other countries in southern Africa, although only the stock exchange of Namibia – whose economy is already closely tied to South Africa's – has signed up.

Russell Loubser, JSE executive president, says it makes sense for smaller exchanges that cannot afford big investments in computer technology to take advantage of the JSE's systems in an increasingly competitive global market for capital.

Another project designed to improve the attractions of Johannesburg is the proposed three-way merger of the JSE, the South African Futures Exchange and the Bond Exchange. Mr Loubser says he hopes the merger will happen as early as August, provided parliament passes the necessary legislation in June.

Johannesburg's reputation is likely to be further enhanced by the recent promulgation of a law against insider trading. South Africa, with its complicated networks of corporate cross-holdings built up during the apartheid era, has a poor record on this: it is almost routine for share prices to move sharply up or down in the days and hours before company announcements and profit warnings.

The new law has more teeth than the old legislation covering insider trading, and regulatory powers have been shifted to the Financial Services Board from the under-staffed Securities Regulation Panel. "I certainly hope that it means some insider traders go to jail," says Mr Loubser.

Brokers and investment bankers generally approve the JSE's efforts to modernise its own operations through Strate, the proposed union with the futures and bond exchanges, and other reforms of the past few years. "I think those are all the right moves, and I'm convinced the progressive stance the JSE has taken is paying off," says Simon Hollis, managing director of ING Barings in Johannesburg.

The JSE has been busier than ever in recent years, and with a capitalisation of more than R1,000bn ($161bn) (putting it in the world's top 20) from 670 listed companies it remains by far the largest equity market in Africa. Newly-listed black empowerment groups, information technology companies and financial services providers have all contributed to the high level of activity.

Such achievements, however, have been overshadowed in the past six months by announcements from several of the country's biggest companies that they are moving their primary stock exchange listings from Johannesburg to London.

Billiton, the natural resources group, and South African Breweries have already gone; Anglo American, the mining and industrial conglomerate, and Old Mutual, the big life assurer which is abandoning its mutual status, have received government approval and are next in line; others that want to move – if they can persuade the South African finance ministry to give them the nod – include IT groups such as Datatec and Dimension Data.

Neither the JSE's market capitalisation (since secondary listings will be maintained in Johannesburg) nor its turnover will be greatly affected. "The majority of shareholders are still South Africans and naturally – combined with the fact that we still have exchange control regulations – they will have no choice but to trade their shares in South Africa," says Mr Loubser.

If and when exchange controls disappear in line with the government's plans, Mr Loubser says, then shareholders will opt for the market where they get the best deal – another good reason to push on with the implementation of Strate.

A PERSONAL VIEW by Stephen Kingsley

Quest for a new role and a new strategy

Exchanges must respond to change which, in a world that is increasingly open, is more than ever determined by users

Securities and derivatives markets have been challenged over the past few years by, at times, enormous changes in the environment in which they operate. These changes have been driven by a combination of familiar factors – globalisation of investments, deregulation and the dismantling of capital controls, cheap technology and communication, and the growing concentration of investment power in the hands of a relatively small number of institutions. All of this has coincided with a rapid increase in the importance of the financial sector and a significant growth in its sophistication.

Traditionally-organised market places, which we can call exchanges for the sake of argument, have sometimes found it difficult to keep pace. Many of these exchanges were mutually-organised for the benefit of members, with a franchise that was kept in place by a combination of regulations and other mechanisms which sought to protect the exchanges and their members – and understandably so.

The vast majority of exchanges are now acting in a way which suggests that they recognise the need to search for a new role and a new strategy. Intuitively, this is not easy. Most organisations know who their customers are, but exchanges find this is a difficult question to answer. The mutual organisational model can militate against decisive and uncomfortable change, and many years of a protected existence can mean that change is so hard to push through that, when it finally starts to happen, it can be too late. Equally, exchanges must respond to change which, in a world which is increasingly open, is increasingly determined by users.

This article seeks to look at the market place from the point of view of the user, of whom there are several classes: institutional investors, private investors, issuers and intermediaries.

However, this analysis is not worth doing unless we simultaneously identify some significant problems which need to be tackled. Here then are some "big issues" that the market as a whole will need to resolve:

● The cost of executing, clearing and settling transactions in many markets is still too high;

● Liquidity in the smaller markets is still a problem, as is liquidity in second-line stocks in the larger markets; and

● The rise of e-commerce is a challenge to traditional service providers and regulators alike.

So how should the markets evolve? One of the biggest drivers is transaction costs. These are imposed both by the exchanges themselves, and by the way in which they organise their process and information technology platforms, since the way in which they do this significantly impacts the cost structures of intermediaries and their customers. It is this element which threatens the viability of floor trading and which has increasingly concentrated ETD (exchange-traded derivative) trading. This trend will continue and we are likely to see the creation of global exchanges (whether real or virtual through linkage) to support globally-traded ETDs.

Stephen Kingsley: the pace of change is not about to slow

The growing importance of first-line stocks has already led to a degree of polarisation in the equity markets. This trend, which an increasing number of commentators consider to be damaging, is likely to continue with the growth of investable funds, the continuing popularity of index tracking and the gradual relaxation of investment restrictions. This is already leading to a single market for large cap European equities, and might well in time lead to some kind of single platform for global large caps. The industry is likely to produce derivatives to support these developments.

While these moves are likely to reduce the cost, and increase the flexibility, of trading, they will do little or nothing for the costs of clearing and settlement. Much work needs to be done to integrate trading and settlement processes, and to simplify and consolidate the depository process where significant costs are created through fragmentation. Rationalising the trading process for European equities is only part of the answer – transmission needs to be dealt with too.

Traditional organised exchanges, whether evolved or note, will face new competition because of all of this. New, and unfamiliar, service providers are quite likely to try to steal their market, by providing efficient and integrated trading and settlement platforms. These will most likely take the form of "virtual" platforms, using already-available components where possible. Equally likely is the use of the internet as a distribution channel. All of this would constitute a real challenge for existing exchanges. The transfer of liquidity would then be a click away.

These developments will also heighten the difficulties already faced by smaller companies in raising capital and maintaining liquidity for publicly traded equity. These issues were explored in a recent paper produced by Brian Basham and Craig Pickering. Their paper covered only the UK, but a similar analysis could likely be performed in the other large European economies. The financial sector needs to find a creative and cost-effective solution to this issue. Europe's regional stock exchanges should have a role to play in nurturing smaller companies and feeding them on to first the local and then the regional capital market. The exchanges have probably been quite good in fostering a stream of IPOs in the past – what threatens the sector now is a demonstrable lack of institutional investor interest.

Perhaps e-commerce will have a role to play since smaller caps have traditionally been a preserve of the private investor, and the private investor is increasingly likely to be comfortable with a screen-based relationship with his intermediary.

Who will provide the trading mechanism? Recent experience in Germany and France shows that exchanges focused on small caps can be successful. Again, it might be possible to develop a regional small cap exchange with web-based distribution. The challenge for traditional stock exchanges is to work out how they fit into what might look, today, like a fanciful idea, but could come to fruition remarkably quickly.

The last few years have seen enormous changes in the way in which exchanges operate. There is no reason to think that the pace of change is about to slow.

Stephen Kingsley is head of European Financial Services Industry practice at Arthur Andersen.

TURKEY by Leyla Boulton in Ankara

Going from one extreme to the other

The market is now clawing its way back after suffering an 80 per cent fall in value on the back of the Russian crisis last August

The Turkish stock market last year went from being one of the world's best performing stock markets to one of the worst. This year it is now clawing its way up again with the same irrational exuberance with which it went down.

"The fall was much more than a correction," says Huseyin Erkan, vice-chairman of the Istanbul Stock Exchange. "We went from one extreme to another." Like many analysts, he believes the market was overvalued before it lost 80 per cent of its value on the back of the Russian crisis. But he and the analysts also argue that the Turkish market's reaction to events in Russia was overdone.

The recovery seen so far this year – an increase of 34 per cent in dollar terms by the end of February – has been built on two factors. The first is that since last year's fall, Turkey has been among the most undervalued emerging markets.

Jurgen Odenius, emerging markets strategist at Warburg Dillon Read, argues that for this reason the market has been hungry for reasons to buy. Mr Erkan reports that having risen to pre-crisis highs of 15 to 20, price/earnings ratios at the end of February were back to around nine from the near historical lows of six they reached last autumn. At $647, a US dollar index of the market's top 100 shares was still 50 per cent down on its pre-crisis high of $1,256. This inexpensiveness, in turn, has helped to feed a very rosy interpretation of the way events could develop later this year.

The market started to climb back on a promise last month of loans from the International Monetary Fund if Turkey implemented a more ambitious strategy for beating double-digit inflation after general and local elections due on April 18.

It received a further boost a week later from the capture of Abdullah Ocalan, leader of the PKK Kurdish guerrilla group. Catching Turkey's most wanted man fuelled hopes that Bulent Ecevit, the caretaker prime minister who is seen by markets as a safe pair of hands for the economy, and other mainstream parties could count on forming a coalition at the expense of the Islamist Virtue party. Its return to power is opposed by the powerful military.

There were also some expectations that a $7bn a year military campaign by Turkey to suppress a PKK rebellion could end sooner rather than later. This would close an important drain on the Turkish treasury and help repair damage caused by Turkey's poor human rights record to relations with the EU, which Turkey wants to join and which remains its largest trading partner.

The market still remains small compared to its potential, mainly because of high inflation, which, although down to 63.9 per cent from 99.3 per cent a year earlier, makes stock market investments unattractive to small investors. Second, Turkish companies, many of which remain closely-held family-owned entities, have yet to use the market on a significant scale as a means of raising capital.

By the end of February there had been no public offerings this year, compared to 20 last year and 29 the year before. Meanwhile, privatisation, which could have boosted share ownership and market liquidity, was stopped in its tracks by the emerging markets crisis and allegations of corruption in a bank privatisation which brought down the reformist government of Mesut Yilmaz, the centre-right prime minister, last November.

The problems, however, have still not stopped the Istanbul stock exchange, which boasts some of the most sophisticated infrastructure in eastern Europe or the Middle East, from pursuing talks with less developed emerging markets such as Romania and Kazakhstan on trading their shares.

INVESTING IN SOUTH AFRICA

TUESDAY MARCH 23 1999

Capetown (right) and other regions are attracting interest: Roman Herzog, the German president (left) visited the Mercedes Benz plant in East London last year. Thabo Mbeki (centre) is expected to become president in June

AP, Reuters, Montage by Phil Hunt

Battle to keep investment flowing

In spite of concerns over world markets and crime, there is optimism, reports **Victor Mallet**

Alec Erwin, South Africa's workaholic minister of trade and industry, is a notorious optimist in the face of the grimmest news. But even he admits that the country's economic prospects have been hit by falling commodity prices and international suspicion of once-favoured emerging markets in Asia, Latin America and Africa.

"Taking into account the problems in world markets and world commodity prices, which are going to alter the timing of a number of investment decisions, I think we're still going pretty well," says Mr Erwin, whose responsibilities include the promotion of foreign direct investment.

"We're unfolding and rolling out a fairly good baseload of investments," he says. "What we need in the domestic market is to continue to try and bring domestic interest rates down so we can get the classic kind of multiplier and accelerator effect from a rising growth rate."

Last year's crisis in emerging markets briefly pushed the rand, the South African currency, down to a record low, forced up interest rates to more than 25 per cent, and transformed an expected economic growth rate of around 3 per cent into a recession.

But the government's prudent fiscal policies – which are likely to be implemented by the ruling African National Congress with as much determination after the June 2 general election as they were before it – have left South African economists optimistic about a revival of economic growth in the new millennium.

Potential foreign investors are also encouraged by signs of a renewed enthusiasm for privatisation. Most of the state's commercial forests, as well as stakes in South African Airways and other parts of the country's transport and communications networks, will be offered to foreign bidders in the coming months.

Another source of foreign investment will be the government's plan to procure R30bn of military equipment to modernise its armed forces. Preferred suppliers have already been named, and – under an ambitious "offset" programme – they are expected to provide some R26bn of inward investment in both military and civilian industries.

Not all investors need such special programmes. With both the rand and equity values depressed, some foreign companies have been unable to resist buying South African assets at bargain prices.

Petronas, the Malaysian state oil company, has bought full control of Engen, the biggest South African fuel retailer which also has exploration interests. And Placer Dome of Canada has become the first North American group to make a significant investment in the South African gold industry since the second world war, buying half of the Western Areas mine in a deal valued at up to $344m.

Figures compiled by BusinessMap, the Johannesburg-based consultancy, show a mixed picture. Foreign direct investment held up well in a difficult 1998, rising to R17.2bn from R15.8bn the previous year (but falling slightly in dollar terms). However, most of the deals were mergers and acquisitions or expansions of existing plants. Investment in new facilities declined to R1.4bn from R3.8bn, while announcements of intended investments fell to a minimal R30m from R415m.

"There has been very little greenfields stuff," says Jenny Cargill, head of BusinessMap. "Bringing in the brand new investment is actually quite tough."

Investors remain wary, however, for a variety of reasons, some of them beyond South Africa's control. Mr Erwin insists that South Africa is ideally placed on global shipping routes. Some companies – including Germany's BMW – do source some products from South Africa for the global market.

But the South African domestic market, even when added to the other markets of southern Africa, remains relatively small and relatively poor. Nor does it help that wars and economic disasters are proliferating across the continent just as South Africa wants to trumpet its role as an investment base for mining, industrial and financial services companies keen to expand in Africa.

Mr Erwin emphasises that the east African states with close ties to South Africa, including Mozambique, Malawi, and Tanzania, are still doing well, but he admits that renewal of war in Angola and the troubles in Zimbabwe are causing problems. "Angola is a major setback because of its wealth. So many investors, when they thought of Africa, thought of Angola."

Other obstacles to investment are the responsibility of South Africa itself. In spite of some half-hearted government attempts last year to play down the issue of crime, it is now clear that murders and car hijackings – and bombings blamed on Islamic fundamentalists in Cape Town – are among the biggest deterrents for potential foreign investors, especially if they need to bring in expatriate managers.

The seriousness of the problem was highlighted in February when Kwon Yong-koo, who headed the South African operations of Daewoo, the South Korean conglomerate, was found shot dead in his car in the northern suburbs of Johannesburg in what appeared to have been a bungled hijacking attempt.

"The one thing people ask us about is crime," says Roger Dunn, senior analyst at Control Risks, the London-based risk management group. "Stability of government – you've got that. What they don't have is a policy in place that seems willing or able to tackle the law and order problem."

Crime, together with the depressed economic climate, contributes to the emigration of white South Africans – especially those with computer skills – which in turn contributes to another headache for investors, a shortage of qualified staff.

"I guess the biggest constraint is staff," says John Drinkwater, regional director for the Middle East and Africa for Xerox. "There is a dearth of suitably qualified staff with a systems background."

The shortage of skilled black personnel dates back to the apartheid era, which ended with the country's first democratic election five years ago.

Xerox – the company disinvested because of anti-apartheid pressure at home in the US in 1989 and reinvested in 1997 – has set up a training programme for technical and sales staff and adopted a school in the black township of Thembisa.

South Africa, says Mr Drinkwater, "is a sophisticated market in the sense that we offer everything we would in Belgium." He adds: "Our mood is basically very positive. We think we're getting a decent return having reinvested."

Among other concerns for investors is the spate of new, labour-friendly laws introduced by the government – which critics say are more appropriate for advanced industrialised countries than a developing economy such as South Africa's.

There is also uncertainty over the incentives or "sweeteners" offered for investment following the withdrawal in this year's budget of a tax holiday system after only three years in force. ("We'd rather move to lowering the corporate tax rate than have a proliferation of tax holidays," says Mr Erwin.)

Perhaps the biggest boost for foreign investment would be a signal from South Africa's own corporations, which are investing only just enough to keep their businesses ticking over, that they themselves have faith in the economy's long-term success.

"Businesses haven't made the decision yet to commit themselves on a longer-term basis – even local businesses," says Herman van Papendorp, chief economist at BOE Securities.

To keep foreign investment flowing into South Africa, in short, is going to be struggle unless the wars in the rest of Africa subside and the Pretoria government starts to bring violent crime under control. And it will be a challenge in any event until commodity prices start to rise and the economy begins to grow robustly.

ECONOMY by Greta Steyn

Unable to head off the crisis

The country is still counting the cost of last year's rand crisis and there is little prospect of improvement this year

The South African Reserve Bank (SARB) has come under fire for its handling of last year's currency crisis, which saw the country fall into recession as interest rates soared to record high levels.

South Africa is still counting the cost of last year's attack on the rand, in which the currency lost about 20 per cent of its value. The assault on the rand sent prime overdraft rates to a peak of 25.5 per cent from 18.25 per cent before the crisis struck, and left the country with virtually zero economic growth and little prospect of a significant improvement this year.

The central bank tried in vain to head off the economic crisis by intervening extensively in the spot and the forward currency markets. However, the market took a dim view of the intervention, as the central bank did not have the foreign exchange reserves to sustain it. There was also criticism of the confusing signals the SARB initially sent out about interest rates, and the subsequent move to raise rates to record levels.

"It is clear from the SARB's policy actions in the past year that there was a considerable degree of policy confusion that settled down only recently as the SARB came to grips with the reality of the situation," says Jac Laubscher, an economist at Gensec Asset Management. He says the SARB's "inappropriate" policy response in the second quarter of last year had aggravated the currency crisis.

With criticism of the failed intervention still ringing in his ears, Chris Stals, the governor of the SARB, told the markets in August last year that there would be no further intervention in the currency markets. Not only would there be no further massive buying of rands when the currency was under pressure, but there would also not be buying of dollars when there were foreign exchange inflows into the market.

This was a crucially important policy statement which suggested an important break from the past. It was previously the central bank's policy to buy surplus dollars to build up reserves to be used when the rand came under severe pressure. The fact that the central bank was an eager buyer of dollars suggested that the rand was on a one-way street downwards.

As Mr Stals put it: "For good reason, the Reserve Bank in the past was quick to absorb any oversupply of foreign exchange in times of balance of payments surplus, but reluctant to sell foreign exchange in times of deficit. The exchange rate of the rand therefore seldom appreciated, and often depreciated quite sharply."

He said the policy effectively never allowed for appreciation of the rand, and could no longer be defended in a world of volatile capital movements and widely fluctuating exchange rates.

Aircraft purchases have boosted imports — Sarah Murray

"Under current conditions of financial globalisation this policy obviously provides an open invitation to currency speculators who are offered a one-way bet in the South African market. Like all other prices, the exchange rate of the rand must be allowed at times to decline, and at other times to rise," said Mr Stals.

No one believed Mr Stals when he made the announcement, but six months later, the central bank is still absent from the currency market. The rand has been allowed to find its own level, which has resulted in increased volatility.

Gensec's Mr Laubscher says he believed there was "a new soberness" in monetary policy, as the SARB had realised two things: first, the central bank could not manage the currency through exchange rate intervention, and second, it was pointless to try to protect the currency with high interest rates.

The SARB's withdrawal has resulted in the markets virtually ignoring the monthly data for foreign exchange reserves – which had previously been a big market mover. However, analysts believe concerns will re-emerge as the effects of last year's big intervention will have to be tackled.

As part of the SARB's intervention, the central bank ran up a huge exposure in the forward cover market. Unlike a private bank, the central bank does not have to ensure that its forward foreign exchange liabilities are covered by foreign assets. The SARB's net open foreign exchange position is very big – about $24bn – and is unlikely to come down substantially while the central bank refrains from buying dollars.

The large uncovered forward position is a blight on the otherwise rosy outlook for portfolio flows into South Africa this year. Deutsche Morgan Grenfell economist Gordon Smith says the pace of interest rate declines this year could be tempered by the SARB's progress in unwinding the forward position. But he nevertheless believes South Africa will benefit disproportionately from restoration of capital flows to emerging markets given the quality of the country's banking sector.

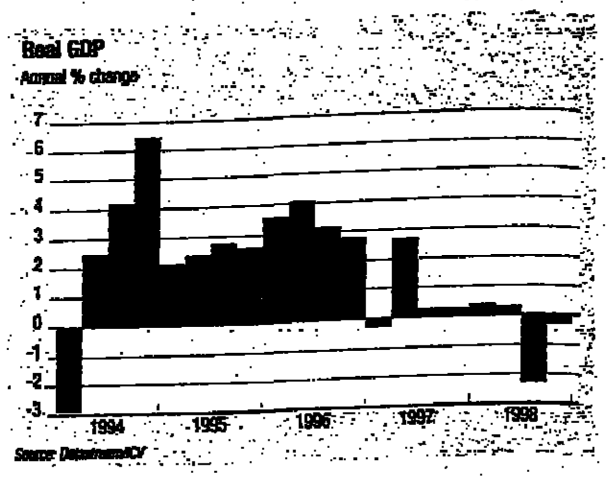
South Africa relies heavily on portfolio inflows to finance its current account deficit, which has been surprisingly large given the economic slowdown. Usually, South Africa's current account improves if the economy sinks into recession, but this time the combination of low commodity prices and large capital goods imports have made for a surprisingly big current account deficit. Imports of capital goods have been boosted by the extension of telecommunications infrastructure to previously under-serviced areas, as well as to purchases of aeroplanes by the state-owned South African Airways.

At an estimated 2 per cent of GDP last year, the current account deficit is not large compared with other emerging markets, but it is nevertheless important because of the scarcity of foreign capital.

Merrill Lynch economist Bruce Donald says South Africa's debt refinancing obligations are relatively small compared with other emerging markets, but its balance of payments situation is nevertheless problematic: "Low reserves, a commitment to unwinding the forward book, and removing remaining exchange controls; no promise of any major improvement in its terms of trade in the short to medium term; and a current account deficit (albeit a small one.)"

Balance of payments concerns have overshadowed optimism on other fronts – the expected sharp fall in the headline inflation rate to below 4 per cent this year, and finance minister Trevor Manuel's confidence-boosting budget. Mr Manuel announced a cut in the corporate tax rate to 30 per cent from 35 per cent, and a further reduction in the budget deficit, to 3.5 per cent of GDP from 3.7 per cent.

Real GDP
Annual % change



Source: Datastream/ICV

FINANCIAL MARKETS by Greta Steyn

Exchange to stock paperless system

Much has been achieved to catch up with international standards after years of isolation but more needs to be done

South African financial markets, which have experienced big changes and a surge in volumes since the country became a democracy five years ago, are set to undergo further reforms.

The stock and bond exchanges have had to catch up with international standards after years of isolation, and while there has already been significant change, much remains to be done to enhance efficiency and competitiveness.

One of the most important projects in the pipeline is the creation of a "paperless" Johannesburg stock exchange (JSE). The project starts in July this year and is expected to be completed by 2002.

The phased introduction of a new electronic settlement system, known as Strate (an acronym for "share transactions totally electronic"), will remove the need to use share certificates for the transfer of ownership, and cheques for payment.

The JSE already trades electronically, but settlement of transactions remains paper driven – creating something of a nightmare for brokers' back offices buckling under the strain of surging volumes.

The risk that JSE trades might not be settled on time has been a blot on South Africa's copybook. In terms of settlement risk, the country is ranked towards the bottom of 20 emerging markets surveyed by GSCS Benchmarks, a London based company that specialises in analysing international securities markets.

According to the GSCS report, the South African market's relatively weak settlement infrastructure could not cope with the surge in trading volumes. This is confirmed by JSE figures, which show an average of 45 per cent of trades on the JSE fail to settle on time.

The value of shares traded on the JSE rose almost 80 per cent in 1997 and then a further 55 per cent last year, and is expected to continue expanding at a cracking pace.

The sheer scale of the paper-driven trade taking place underlines the need for a new system, as does the heightened competition between emerging markets. India is an example of an emerging market which boosted its image with the implementation of electronic settlement last year.

JSE president Russell Loubser says Strate will give South Africa "a totally seamless trading, clearing and settlement system which is recognised as being world class".

Monica Singer, Strate general manager, says a pilot phase will begin in July, when three companies will be placed on the system.

Although she hopes more companies will form part of the project before the end of this year, the millennium computer bug has put paid to plans to include illiquid shares on the system this year. Shares with low turnover will only be put on the system from March next year.

Further reform in the pipeline includes the creation of a "super exchange" – the merger of the JSE, the bond exchange and the SA Futures Exchange (Safex) into one organisation governed by a single board. Loubser, who has been the driving force behind the merger, believes the creation of one big exchange will enhance efficiency, security, transparency and cost-effectiveness.

However, the millennium bug is standing in the way of rapid progress. The integration of the three exchanges' trading systems is expected to be difficult, and may not take place until some time next year.

The bond exchange is still developing an automated trading system, which it expects to implement before the end of the year. At the moment, prices are advertised on Reuter screens and trading is telephone-based.

The introduction of automated trading is the latest in a range of bond market reforms, of which the biggest was the introduction of primary dealers last year.

The government has appointed 11 banks – six international and five local – to tender for its bonds at a weekly auction and make a market in them. Previously, the central bank was the market maker and the placing of stock was done privately, without the transparency of a weekly auction system.

Tim Marsland, head of fixed income trading at ABN Amro in Johannesburg, says the appointment of private banks as primary dealers in government stock has made the SA bond market deeper and easier to trade.

"The market did well in last year's stress test, when emerging markets were under pressure. The system is also more transparent, as the Reserve Bank is no longer confusing matters in the bond market."

Economists applauded the decision to end the practice of the South African Reserve Bank (SARB) making a market in government bonds, as the SARB's activities in the markets sometimes created a conflict between monetary and fiscal policy objectives.

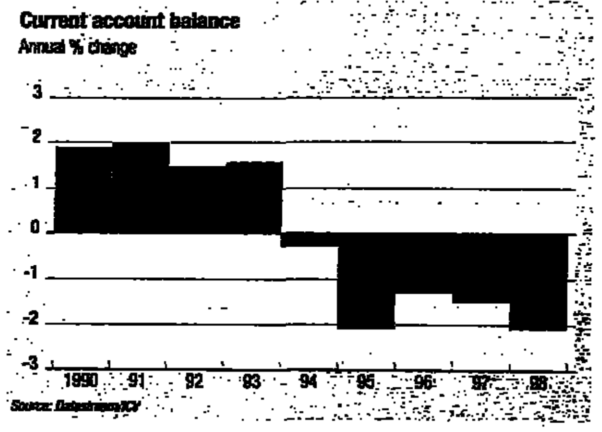
Sometimes the SARB needed to sell stock to drain cash out of the money market, and the sales of the bonds would add to the government's interest bill. In meeting its monetary policy objectives, the central bank was thwarting a fiscal policy objective – namely, to keep a lid on the interest bill. Government spending on interest accounts for about a fifth of total spending.

Now if the central bank wants to take cash out of the money market, it sells it own debentures, and it foots the interest bill itself. The issuing of SARB debentures formed part of an major overhaul of the monetary policy system which saw the introduction of a mechanism for accommodating the banks' cash needs.

Banks now take part in a daily securities repurchase agreement tender. The rate at which the banks obtain cash is determined as a result of the bidding process and is flexible.

The previous system, in which the central bank fixed the accommodation rate, was less flexible and much less market friendly.

Current account balance
Annual % change



Source: Datastream/ICV

FOREIGN INVESTMENT by Caroline Southey

Investors seek more incentives

Foreign groups are picking up local companies 'dirt cheap' but little is being done to boost productive capacity

Many foreign investors appear to be ignoring the hair-raising tales of daily car hijackings and murder in Gauteng Province, the Johannesburg-centred industrial powerhouse of South Africa: latest figures show that foreign direct investment rose by 9 per cent in nominal rand terms in 1998 to R17.3bn from R15.8bn in 1997, according to BusinessMap, a company specialising in investment advice.

The bulk of this investment was made through mergers and acquisitions which rose from R11bn in 1997 to R14.7bn last year. Sectors which attracted the most interest included energy and oil, mining, construction and the motor and components industry.

Among the biggest single investments were the purchase by Petronas, the Malaysian state oil group, of South Africa's Engen; the acquisition by Lafarge, the French building materials company, of Blue Circle cement; and Canadian mining group Placer Dome's purchase of a 50 per cent stake in the Western Areas gold mine.

These deals have rearranged the pecking order of the top foreign investors. The Petronas deal propelled Malaysia into the top slot. The UK, Italy and Germany followed, relegating the US to fifth place from pole position last year.

One reason for the continued foreign interest is the fall in the value of the rand. "Foreign groups are picking up local companies dirt cheap," says Jenny Cargill, chief executive of BusinessMap. "The devaluation appears to have offered a sufficient discount on the price of South African assets to tip the scales in favour of direct investment."

But analysts warn that South Africa's reliance on mergers and acquisitions to attract foreign capital carries inherent risks. The country's inability to excite interest in other areas is reflected in at least two worrying trends: a sharp drop in green field investment, from R3.8bn in 1997 to R1.4bn in 1998, and a dramatic fall in projected investments for this year.

"We are still seeing too much speculative investment and not enough investment in productive capacity. Something has to be done to reverse this trend," says one business executive.

Ms Cargill warns that attracting foreign investment capital remains a "a hard nut to crack. Investors still approach South Africa with a wary eye, particularly against the backdrop of increasing political conflict on the continent".

Foreign investors also point to problems in South Africa itself. They include:

- The sluggish pace of investment by domestic companies, cited as a big disincentive to foreigners exploring opportunities in the country.
- Insufficient sweeteners.
- The absence of a coherent investment strategy from government.
- A shortage of local skills.
- High transaction costs and burdensome bureaucracy.
- Complicated industrial relations, compounded by tough new labour laws.
- The high crime rate.

One businessman points out that "foreign investment always follows local investment. A bullish climate in any country is always precipitated by local capital. But the confidence is missing in the local market."

The sluggishness in local investment is being attributed partly to a downturn in economic activity. However, there is a growing sentiment that government is failing to provide sufficient investment incentives for both local and foreign capital.

Harold Kutner, vice-president of General Motors, argues that South Africa has to offer competitive tax incentives if it is serious about attracting foreign investment. "There has to be a way to encourage businesses to come here. Governments all over the world are doing it. South Africa cannot afford not to do the same."

But government incentives policy appears to be in some disarray. Last month Trevor Manuel, finance minister, announced that tax holidays, introduced in 1995, would be abolished this September. The unstated message was that any losses would be offset by an immediate five percentage point cut in corporate tax.

"The question is whether Manuel's strategy indicates a change of policy," says Ms Cargill. "This might not be a bad thing in itself but there appears to be some confusion about where government is headed."

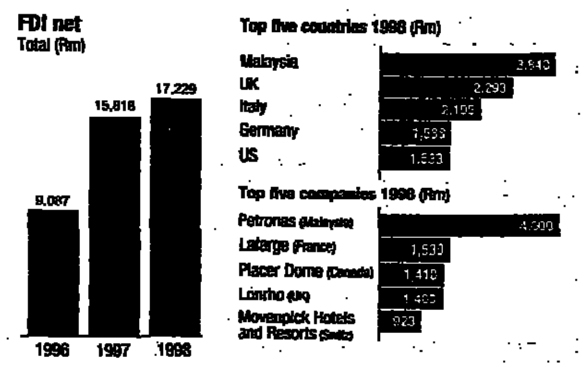
Jos Gerson, chief economist for Merrill Lynch South Africa, believes Mr Manuel has taken the right step. "It's much better to let the market do its own thing. Where government can act is to keep working on general incentives, including further cuts in corporate tax, creating a more flexible labour market and pressing ahead with privatisation."

Industrialists such as Christoph Köpke the South African head of car manufacturer Mercedes Benz, argue that incentives are a bit of a red herring. "You only need incentives if the mindset is not right. What South Africa needs is for the political miracle of the last five years to be matched by an economic miracle."

For that to happen, says Ms Cargill, the government needs to "bring the private sector to the table to thrash out a sensible investment policy". She argues that the apartheid-era rift between the ANC and business has never been healed.

That view is echoed by a large number of local and foreign businessmen. "The relationship between capital and government is poor to non-existent. As a result, it is virtually impossible for differences to be thrashed out behind closed doors. And that means the gap is never narrowed," says one foreign investor.

Despite the difficulties, South Africa remains an important investment location for companies seeking to exploit markets further north, he says. "The downstream potential in sub-Saharan Africa is huge. Companies can position themselves in South Africa, which has good infrastructure and a sophisticated financial services sector in preparation for markets opening up further north."



Kind of investment (Rm)	1996	1997	1998
Mergers and acquisitions	4954.0	11,100.0	14,686.0
Expansion	2227.0	730.0	1,649.5
New	1406.0	3,811.0	1,393.6
Intention	389.0	415.0	30.0

Source: Businessmap

PRIVATISATION by Bernard Simon

Government's actions speak louder than words

Selling off state assets does not win votes in South Africa so the government is underplaying its enthusiasm

Anyone seeking clarity on the South African government's privatisation policy would be well-advised to pay more attention to its deeds than its words.

Leaders of the ruling African National Congress show little enthusiasm in public for selling off state assets. They recognise it is an issue that will gain few votes in the coming election, especially from the ANC's trade union and communist allies. President Mandela made no mention at all of privatisation in his keynote speech at the annual opening of parliament last month.

The reality on the ground however, is rather different. Stakes in numerous parastatals are up for sale and, if anything, the pace has accelerated in recent months. A lengthening list of local authorities is seeking private-sector partners to help run water, sewage and other facilities. Outsourcing of services is increasingly popular.

One foreign executive involved in bids for public-private partnerships describes competition among US and European companies for a slice of the action as fierce. "It's worse than a second-hand car market," he says.

The scope for new business appears most promising at the local level, where outsiders can provide the financial resources, technical expertise and management skills that hard-pressed municipalities desperately need.

Earlier this year, a group of municipalities north of Durban, known as the Dolphin Coast, signed a pioneering deal with a consortium led by France's Saur International to operate their water and waste treatment system for the next 30 years. A similar agreement is on the verge of being concluded between UK-based Biwater and the city of Nelspruit, in Mpumalanga province.

A crucial element of these deals is that the private partners will modernise and expand facilities, as well as take over billing and revenue collection – an area where many, if not most, municipalities are struggling.

Chippy Olver, deputy director-general for local government, told the Financial Mail magazine recently that more than 40 other local authorities are moving in the same direction, expanding private participation to services such as garbage collection and roads and parks maintenance.

Johannesburg, the country's biggest city, has begun moving in that direction since the recent appointment of Ketso Gordhan as city manager, Mr Gordhan, who previously helped spearhead the national transport department's privatisation drive, plans to bring in private companies to run the municipal airport, the fresh produce market, the civic theatre and the municipal bus service, among others.

At the national level, privatisation has been slowed by a combination of government indecision, the weak leadership of public enterprises minister Stella Sigcau, and various unforeseen obstacles, such as land claims and bidders' financial difficulties.

One example of such indecision is Aventura, which operates a chain of holiday resorts. The government picked Kopano ke Matla, trade union federation Cosatu's investment arm, as the preferred bidder last June. But the failure of one of Kopano's financial backers to come up with payment has held up the R93m deal and, in the process, deepened Aventura's financial and management difficulties.

Only a handful of deals have been signed, sealed and delivered over the past four years. They include the disposal of: SunAir, a small airline; various radio stations previously operated by the South African Broadcasting Corporation; a 30 per cent stake in Telkom, the national phone company; and a 20 per cent interest in the Airports Company, which operates the country's main airports. But, as at the local level, the pace appears to be picking up, with the government now setting firm timetables for some of its most ambitious disposals.

It plans to choose a preferred buyer for up to 30 per cent of South African Airways by June. Final bids for up to 75 per cent of 332,000 hectares of commercial forest run by SA Forestry Company (Safcol) and the department of water affairs and forestry must be submitted by the end of July. In each case, several foreign companies have expressed interest.

'Inclusion of a black empowerment partner has become a virtual necessity'

Other assets that may be put on the block within the next few years include parts of Transnet, the transport conglomerate; parts of Eskom, the power generator and distributor; and the Post Office. The latter is evaluating bids from a number of foreign postal services to help manage an extensive restructuring.

Nevertheless, foreign companies bidding for privatisation and public-private partnership contracts can still expect to encounter frustrations. They will have to deal with both (mostly white) members of the old guard struggling to adapt to the new South Africa, and (mostly black) newcomers struggling to grasp the complexities of government and business.

A perception is also growing that while foreign investors have a role to play in the privatisation process, the biggest winners will be local black empowerment groups.

Eyebrows have been raised in business circles at government's willingness to stick with Cosatu's Kopana ke Matla in the Aventura deal in spite of missed deadlines and financing problems. Controversy also surrounds Pretoria's decision to award a two-year management contract for Alexkor, a diamond mining group, to a relatively inexperienced local consortium called Nabera ahead of De Beers and Canadian-listed Namibian Minerals Corp (Namco). Alexkor's fate has been in the air for almost three years.

The concerns surfaced at a meeting of the US-South Africa business development committee in February. The group, which reports to the inter-governmental binational commission, urged "an open and fair privatisation process in the choosing of strategic partners and ... that companies of all nationalities will be considered on a meritorious basis for participation."

The inclusion of a black empowerment partner has become a virtual necessity for any serious bidder. But Tony Wright, Biwater's operations manager in Johannesburg, also sees advantages from such arrangements when it comes to implementing a deal. Biwater has taken on a local community group as a partner in its Nelspruit water venture. "Through these people, we'll get the community to buy into the system and make it work," Mr Wright says.

DEFENCE OFFSET by Bernard Simon

Shopping with precision

Strategic partnerships teaming defence and commerce are seen as the key to attracting foreign investment

If Pretoria's wishes come true, one of the biggest drawcards for foreign investment over the next few years will not be political stability, sound macro-economic management or regional integration, but defence procurement.

The defence force has been working since the end of the apartheid era on a blockbuster order for military hardware to replace ageing equipment that could not be bought during the long years of the international arms embargo.

Following a protracted bidding process, the government drew up a shortlist last November of preferred suppliers for a package of hardware with an estimated price tag of R29.8bn. The shopping list includes fighter and trainer aircraft, corvettes, two types of helicopter, and submarines.

A key criterion in the evaluation process was bidders' "industrial participation" or "offset" packages, in other words, commercial projects that would hinge on the defence contracts.

The foreign bidders (and their governments) have left virtually no stone unturned in their search for suitable offset projects. The defence ministry estimates that the preferred bids announced last November will result in a gigantic R110bn of industrial benefits over seven years, comprising direct investment, exports and local sales. It claims that 65,000 jobs will be created.

The offset proposals include investments in, among others, automotive components manufacturing, telecommunications, stainless steel, gold jewellery, chemicals, plastics and high-quality textiles.

Defence minister Joe Modise summed up Pretoria's high hopes for a commercial bonanza from the defence deal in February: "Such strategic partnerships will be of immense value to our economy through significant investment, expanding our industrial base, enhancing our high-tech manufacturing capacity, ensuring job creation, and eliciting greater access to international markets."

Detailed talks with the preferred bidders on their offset packages are now under way. The government's "international offers negotiating team" is led by Jayendra Naidoo, former chief executive of the National Economic Development and Labour Council (Nedlac). Some of the hitherto unsuccessful bidders are hoping for a second chance if their rivals fail to live up to earlier promises.

The defence deals are the most publicised part of a general government policy to use public-sector contracts as leverage for new investment, technology transfer and other commercial benefits.

The South African policy is closely modelled on Canadian practice. Under guidelines that took effect in September 1996, all government and parastatal contracts with an import content exceeding US$10m must include an industrial participation component.

The value of the offsets must total at least 30 per cent of a bid's imported content (50 per cent in the case of defence contracts). The programme is administered by the department of trade and industry.

The industrial participation portion of a bid is judged according to "credits" awarded for each type of benefit. For instance, the number of credits for job creation equals the estimated value of salaries and wages.

New investments, research and development, and links with previously disadvantaged individuals (either as shareholders or contractors) earn double credits. Bidders must fulfil their obligations within seven years, and must put up a performance guarantee equal to 5 per cent of the offset component. Once the contract is awarded, the supplier must file bi-annual progress reports.

It remains to be seen whether implementation of offset proposals, especially for the defence contracts, matches their promise. Sceptics abound, some of them not surprisingly among unsuccessful bidders for the defence contracts.

It will be especially interesting to see what guarantees, if any, Mr Naidoo's negotiators are able to extract from the defence contractors that their industrial participation proposals will go ahead.

The sceptics point to flaws in offset programs in general, and South Africa's in particular.

One consultant says that "offset is not something that any investor really wants to hear about". He predicts that it "is not going to be the golden horseshoe that the government thinks it's going to be".

One risk is that, because the policy is based on promises of future benefits that are often difficult to quantify, bidders may be encouraged to inflate the value of their offset proposals during the tendering process.

A more serious risk is that suppliers will lose enthusiasm for the offset component once their contracts are in the bag. Any number of excuses can arguably be used to delay or shelve promised projects.

In spite of these doubts, the assertive industrial participation policy does appear to have encouraged foreign investors and their governments to think harder about the South African market than they might otherwise have done.

The publicity value of offsets was underlined during UK prime minister Tony Blair's visit to South Africa in January. Both South African and British officials made much of the billions of rand in investment and trade they expected to be generated by the tentative contracts awarded to British Aerospace (part of the fighter consortium) and GKN Westland helicopters (chosen to supply a new fleet of maritime helicopters).

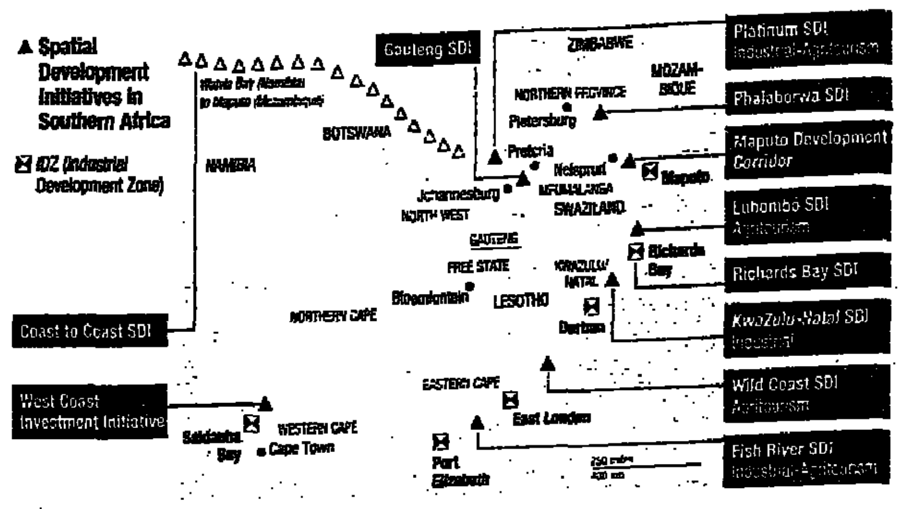
As one foreign trade official puts it, the programme "has created a situation where suppliers have to be much more attentive and involved in offering value for the money paid by the state. We've seen quite a lot of activity that would otherwise not have taken place".

Ministry of Defence preferred suppliers

Product	Preferred supplier	Quantity	Value (Rand m)	Estimated IP value* (Rand m)	Jobs
Corvettes	German Corvette Consortium	4	6,001	16,007	10,153
Submarines	German Sub. Consortium	3	5,212	30,274	16,251
Maritime helicopters	GKN Westland, UK	4	787	2,720	2,536
Light utility helicopters	Agusta, Italy	40	2,168	4,685	4,568
Light fighter aircraft	SAAB, Sweden; BAe, UK	28	10,875	48,313	23,195
Lead in fighter trainer aircraft	BAe, UK	24	4,728	8,580	7,472
					Total: 64,165

Source: Ministry of Defence (South Africa)

* Industrial participation (offset)



SPATIAL DEVELOPMENT INITIATIVES by Caroline Southey

Slow progress sparks incentives debate

The SDI formula has produced at least one notable success in the Maputo corridor but overall they 'have not been a success'

Five years after the African National Congress-led government took power, officials responsible for the country's industrial policy are still struggling to shape a coherent strategy which would entice investment and boost development.

That task has been complicated by the need to sweep away policies adopted by the National party which lent heavily towards state intervention through a panoply of investment incentives, subsidies to producers and high import tariffs.

The end of apartheid coincided with new global trading rules laid down by the World Trade Organisation. Any new industrial policy had to meet two objectives – servicing the needs of previously neglected communities and compliance with WTO rules.

The focus of this emerging policy has been the creation of development regions, or spatial development initiatives (SDIs), of which there are 11 in various stages of delivery. The concept mirrors the idea of development zones in Latin America or "growth areas" in south-east Asia.

SDIs are meant to provide a favourable climate for investors. Many of them include industrial development zones, linked to key ports, aimed at increasing South Africa's export potential.

"The SDI programme is a short-term, intensive intervention by government, which, if well-managed, results in long-term benefits, such as economic growth and job creation," says Paul Jourdan, in charge of special projects at the Department of Trade and Industry.

He says the government's aim is to offer investors infrastructural and cost advantages as well as environments where bureaucracy is stripped away. "The idea is that we create a bed of grease in which a company can make widgets unimpaired," says Mr Jourdan.

The SDI formula has produced at least one notable success, the Maputo Corridor, an ambitious regional development project.

Four years after its inception, the corridor is bearing fruit. A private sector consortium, Trans African Concessions, comprised of local construction and property companies Basil Read and Stocks and Stocks and French construction group Bouygues, has begun work on a 440-km, R1.8bn toll road between Witbank in South Africa and the Mozambique capital Maputo. The Maputo port is being rehabilitated while work has begun on a $1.3bn aluminium smelter near the capital which will be built by an international joint venture led by Billiton.

But other SDIs, such as the Fish River project in the Eastern Cape and the Lubombo zone linking South Africa, Swaziland and Mozambique, have been less successful. "Overall the SDIs have not been a success. Take-ups have been very slow," says Jenny Cargill, chief executive of Business-Map, a Johannesburg-based company offering strategic investment advice.

The planned project at Coega near Port Elizabeth in the Eastern Cape has run into difficulties after a key industrial partner, the Japanese company Mitsui, pulled out, leaving Billiton exposed with its proposal for a R3bn zinc smelter.

Coega could turn into an unwelcome cause celebre for the ANC government as it raised high expectations for a region ravaged by high unemployment and a shortage of industrial development.

Lack of progress has sparked an intense debate about incentives and whether government is doing enough to entice private sector participants, particularly foreign investors. The debate was brought into sharp relief last month when Trevor Manuel, finance minister, announced that one of the SDI investment incentives, a six-year tax holiday, would be scrapped from September this year.

But Mr Jourdan believes the scrapping of preferential tax incentives is to be commended. "Instead of having a range of exceptions, we believe we should have a lower tax rate, obviously within our fiscal constraints, to create the best possible investment environment. Capital prefers that because it means there is less lobbying, less patronage."

Mr Jourdan admits government is "betwixt and between" on the issue of incentives. He believes, however, that the policy is evolving in a way that will minimise state involvement and, as a result, create fewer distortions in the market.

BLACK EMPOWERMENT by Victor Mallet

From the corner shop to the corporate world

Black companies are making big investments but may come unstuck if limitations on funding arrangements are not addressed

Cyril Ramaphosa is the epitome of black empowerment in South Africa. The man who led two nationwide strikes as head of the National Union of Mineworkers during the apartheid era and who negotiated the end of white rule on behalf of the African National Congress (now the ruling party) is today a director of such bastions of capitalism as Anglo American and South African Breweries.

He is also chairman of Johnnies Industrial Corp (Johnnic), a media-oriented black empowerment group carved out of the Anglo empire, and was deputy chairman of New Africa Investments Ltd (Nail) until he was forced to resign by his fellow directors last month for reasons which have yet to be fully explained.

For Mr Ramaphosa, there is no doubt about the progress made by black business people since South Africa's first democratic election in 1994. "What has been achieved is to get black people to be players not in marginalised businesses but in real serious businesses," he says. "Prior to 1994 black people were really restricted to what I would call the cornershop businesses.

"The number of black businesses that are being established is just staggering. Every day I read of a new black organisation that is springing up, involved in one deal or another."

The ANC-led government wants black entrepreneurs to be given the chance to participate in many big new investments, whether the investor is foreign or local and in any sector.

Guidelines on asset transfers to help right the wrongs of the past are strictly applied in privatisations and the awarding of government contracts.

Big business has taken up the challenge, and the results speak for themselves. According to BusinessMap, the South African consultancy, black companies made 130 significant investments worth at least R21bn last year. In January this year, 16.3 per cent of the market capitalisation of the Johannesburg Stock Exchange was under black control or black influence, compared with 1 per cent in September 1995.

Black empowerment, however, has not been free of difficulties. Mr Ramaphosa (who once said he did not have the "slightest clue" what a price-earnings ratio was) is refreshingly frank about how much he has had to learn about the world of business. Too few black South Africans, he says, are actually running the day-to-day operations that ultimately make the profits.

"One of the areas where black business needs to develop is to be more operationally inclined," he says, "or to be in manufacturing where they can run a business properly. Most of those that have listed on the stock exchange have tended to be holding companies. That's an area of weakness that needs more attention."

A still more serious problem is the way that black empowerment deals have been financed in the past few years. For historical reasons, few black South Africans have significant capital of their own.

For the aspiring black "capitalists without capital" who wanted to start a business or buy an existing one, financial institutions devised complicated and highly leveraged transactions dependent on rising share prices and moderate interest rates.

But last year's crisis of confidence in emerging markets sharply increased South African interest rates and put share prices under pressure, thus threatening several politically sensitive black empowerment deals, including the purchase of Johnnic by black investors.

Mr Ramaphosa says the problem is that Johnnic's board believes the company is poised for "tremendous growth" in about two years, but that the funding arrangements for the black investors expire in less than a year.

"If the funding arrangements are adhered to the whole thing just collapses like a pack of cards, so one would hope they would roll over the funding that they've made available." Without a rollover or some new funding mechanisms, Mr Ramaphosa says, deals would become unravelled simply because share prices had failed to perform.

While refinancing discussions continue, he is eyeing the possibility of adding a more hands-on job to his boardroom responsibilities at various companies.

But Mr Ramaphosa, who was once secretary-general of the ANC and who saw his rival Thabo Mbeki become President Nelson Mandela's successor, rejects the widely held view that he will return to politics. "No, I don't want to go back into politics," he insists. "Business is much more fascinating."